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S. Hrg. 103-600

HEARING ON THE SMALL BUSINESS ADMINISTRATION'S 7(A) GUARANTEED BUSINESS LOAN PROGRAM AND DISASTER ASSISTANCE LOAN PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

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MARCH 2, 1994

Printed for the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

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HEARING DATE

HEARING ON THE SMALL BUSINESS ADMINISTRATION'S 7(A) GUARANTEED BUSINESS LOAN PROGRAM AND DISASTER ASSISTANCE LOAN PROGRAM

WEDNESDAY, MARCH 2, 1994

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m. in room SR-428A, Russell Senate Office Building, Hon. Dale Bumpers, Chairman of the Committee, presiding.

The CHAIRMAN. I'd like to welcome you this morning to today's hearing. I want to clarify one thing for the record.

Yesterday, Administrator Bowles was testifying for the Commerce, Justice, State and Judiciary Subcommittee on Appropriations, a subcommittee of which I am a member. Senator Hollings mentioned the fact that many years ago during a disaster, people got the impression that they could get $3,500 just as a grant. But it was from FEMA, not SBA, and apparently a lot of those grants were given out by FEMA.

First of all, it was many years ago. Second, it was not SBA. In this morning's little publication here, "Bureau of National Affairs," BNA, they've got a statement in here and I want to put the part I have marked in the record. They have two errors in a statement in here describing the hearing: first, they suggest that it was SBA disaster loans of $3,500 and, number two, they forgot to put that this was many years ago and that it was FEMA. So that is the way things happen around here.

[The article referred to follows:]

SENATORS EXPRESS CONCERN ABOUT LOANS PROVIDED FOR DISASTER RELIEF

Sens. Ernest Hollings (D-SC) and Pete Domenici (R-NM) called during a Senate subcommittee hearing March 1 for an accurate audit process for Small Business Administration loans, particularly those related to disaster relief efforts.

The hearing on the SBA's fiscal 1995 budget request quickly focused on disaster relief efforts and ensuring the large numbers of loans made during emergency situations are legitimate.

"If the 6 weeks following the California earthquake we've conducted 335,000 interviews and received 70,000 loan applications, which have to be processed in 20 days," SBA Administrator Erskine Bowles said.

Bowles said that about 2,300 SBA employees were dispatched to help with the relief effort.

"We are watching the volume of activity from this disaster grow daily and it appears to be the biggest disaster that the SBA has had to respond to in a long time," he said.

Hollings, the chairman of the Senate Appropriations Subcommittee on Commerce, Justice, State, and Judiciary, was concerned about the volume of loans being processed and said that, during a previous disaster relief program, loans were handed out without discretion, often for businesses that were not legitimate.

"The word got out all you needed was one of those SBA disaster loans for $3,500 and they're never going to come back and try to collect," Hollings said. "When you get these millions and millions of requests, set up some kind of an audit system so they don't just get overlooked, and people don't worry about having to pay for them," he said.

Domenici suggested Congress should require an audit process and remind agencies through legislation to seek better reviews of activities.

"Mr. Chairman, we spend a lot of time and attention on the agencies we fund," Domenici said, "I believe at some point we might want to consider helping them by writing in to the appropriations bill the type of reviews they ought to have done during the year and if there are some resources that have to be switched around so that they know they have the money to do it," he said.

OPENING STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. Today, this Committee undertakes the second in a series of budgetary and oversight hearings which will lead to reauthorization of the Small Business Administration programs for 1995 and the following years. Today, we're going to focus on two programs which have the greatest budgetary significance and importance to the national economy: the 7(a) Guaranteed Lending Program and the Disaster Assistance Lending Program. Together, for this year, these programs will account for 85 percent of SBA's overall lending, and together they represent over 80 percent of more than 300,000 loans now in SBA's total portfolio, now valued at about $26 billion.

No one needs to be reminded of the difficulty which new and established small businesses have faced in recent years in obtaining credit from banks and other lenders who have been the traditional mainstay of small business capital. The infamous credit crunch has eased considerably in the past year, but unprecedented numbers of business owners continue to be turned down by their bankers unless they have a partial guaranty of their loan from SBA.

The voracious demand for SBA assistance in business loans is shown in charts which the staff has prepared and which are now on display. This trend line was supported in Fiscal Years 1992 and 1993 by emergency supplemental appropriations measures. Everybody remembers that well. In the spring of 1993, the 7(a) program shut down for several weeks due to the lack of funding. In response to the crisis, this Committee and the House Small Business Committee acted promptly to reform the program so as to greatly reduce the cost of individual loans to the Treasury.

The subsidy rate for the 7(a) program, which is the measure of its cost under the Credit Reform Act, was reduced from 5.45 percent to 2.15 percent, thus allowing the same amount of appropriated dollars to fund more than twice as many loans. And I am proud to say that Congress and the Clinton Administration were able to drastically reduce the cost of the 7(a) program without eliminating the program or imposing huge fees on small business borrowers as the two previous administrations have proposed.

This hearing is to assess the impact of these reforms on the program and its participants. We want to know from our witnesses

whether these reforms are working and whether the demand for assistance from these programs can be met this year and next year. The President is to be commended for presenting a number of innovative new proposals in the 1995 budget. The proposal to create one-stop capital shops within ten empowerment zones across the country is intriguing. But we still need to understand both the risk and the benefits which could come from this initiative. I will have specific questions about the new initiatives, and this process will help Senator Pressler and me formulate our views and estimates letter, which has to be submitted to the Budget Committee very shortly.

Finally, we will review the efforts of SBA to address the needs of businesses and homeowners who have been injured by the recent California earthquake and last year's Midwest floods. The terrible spate of natural disasters in recent years has caused the SBA's annual disaster lending to balloon from $782 million in 1992 to $2.64 billion this year. While I generally view this program as one of SBA's most efficient and the most vital, I am concerned that the administration must request adequate resources and staffing to manage and collect this vastly increased loan volume.

I would also like to commend Administrator Bowles, Mr. Kulik and the SBA disaster staff for their prompt and generally efficient response to this enormous disaster.

Our next hearing in this series will focus on the SBA's microloan program and the administration's proposed changes in various business development programs.

We have been joined by Senator Burns. Senator Burns, do you have an opening statement?

Senator BURNS. No, Mr. Chairman, I do not. I'd just like to insert a couple of comments into the record. I have some questions for our witnesses, and I think we should get to them. Thank you very much for the privilege.

[The prepared comments of Senator Burns follows:]

PREPARED STATEMENT BY SENATOR CONRAD BURNS

Last year, I was pleased when we were able to secure additional funding for the 7(a) program.

The demand for these loans was far outstripping the availability.

I will be interested to hear from the SBA and from the National Association of Government Guaranteed Lenders about the effects the reduced subsidy has had on the 7(a) program.

Another topic of interest to me is the SBA's actions to decrease paperwork for borrowers. I was pleased to see that the SBA has reduced the application form to a single page in its pilot project. Let me also add that I hope this pilot program can be extended to include my state of Montana in the near future.

The CHAIRMAN. Thank you, Senator Burns. Our first panel consists of Ms. Cassandra Pulley, Deputy Administrator of the Small Business Administration. Ms. Pulley, I have read your statement and I find it to be extremely interesting. I assume that you can summarize your statement, can you not? After reading it, I do not want to listen to all 34 pages of it again. Please proceed.

STATEMENT OF CASSANDRA PULLEY, DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY JOHN COX, ASSISTANT ADMINISTRATOR FOR FINANCIAL ASSISTANCE, SMALL BUSINESS ADMINISTRATION; AND BERNARD KULIK, ASSISTANT ADMINISTRATOR FOR DISASTER ASSISTANCE, SMALL BUSINESS ADMINISTRATION

Ms. PULLEY. Mr. Chairman and members of this Committee, it is a pleasure to be here today to review the 7(a) General Business Loan Program and our Disaster Loan Program. I am accompanied by Bernard Kulik, Assistant Administrator for Disaster Assistance and John Cox, Assistant Administrator for Financial Assistance.

Mr. Chairman, our 7(a) Business Loan Program is meeting the needs of thousands of small businesses but the demand on the program increases each year, and I am pleased to say that we are meeting the demand because of the work of this Committee and the House Small Business Committee. The legislative changes approved by this Committee and the Congress last summer accomplished several things for the 7(a) program.

The changes lowered the guaranty percentage on Preferred Lending Program loans from 80 percent to 70 percent, reduced the maximum guaranty for real estate loans greater than $155,000 to 75 percent, allowed the SBA to charge a fee on all loans sold in the secondary market and approved a sharing of returns on those loans sold at a price exceeding 100 percent of the outstanding balance. As a result of these changes, we were able to lower the subsidy rate on the 7(a) program, which dramatically increased the 7(a) program level. This allowed SBA, for the first time in several years, to continue lending through the 7(a) program without interruption.

We believe that we will be able to continue lending throughout Fiscal Year 1994 without interruption in service and without having to request a supplemental appropriation from the Congress. That is good news to both the small business customers and to our lending partners. Again, thank you for your support.

I am also pleased to discuss with you today the current state of SBA's Disaster Loan Program. While Fiscal Year 1993 was the biggest year in the history of the SBA Disaster Loan Program, it already appears that Fiscal Year 1994 will top last year. The coordinated delivery of assistance from SBA and the other agencies in both the Midwest flood disaster and the Northridge earthquake are directly attributable to the personal involvement and leadership of President Clinton, who brought a new spirit of cooperation and dedication to the entire federal effort.

For the past several years, the SBA has seen dramatic increases each year in the 7(a) Guaranty Loan Program. The program has grown by some 120 percent since Fiscal Year 1991, when we approved $4.1 billion in loans. We now project a 1994 loan volume of approximately $7.2 billion, which will generate approximately 29,000 loans. Our current lending is at an annual rate of $6.8 billion, but we expect lending to increase by 10 percent during the second half of the fiscal year to achieve a volume of $7.2 billion.

Our Fiscal Year 1995 budget requests a $7.5 billion program level which, combined with an approximate carryover of $1.5 billion, will result in an availability of approximately $9 billion. This will be

adequate to meet our expected demand for the program. Our 7(a) program this year also includes special initiatives that we believe will help to meet our customers' credit needs.

Our first initiative, a pilot Low Doc Loan Program which is already underway, is a simplified loan application package for loans of less than $100,000. These loan applications are only one page long and focus more on the applicant's character and credit history than on traditional credit criteria, such as collateral. This program has been working in our San Antonio District Office since December and recently was expanded to all of Region VI. We are finding that the program is bringing many small lenders back to the small business market. In addition, the early results from the program show that 18.3 percent of the loans are going to women-owned businesses and 23.8 percent are going to minority-owned businesses.

A second program, which is still in the development stages, is the Loan Express Program which would allow lenders to use their own loan application, supporting documents and legal forms. The lender would process, approve, service and liquidate the loans. The maximum amount of a loan would be $100,000, and lenders would agree to a maximum SBA guaranty of 50 percent. There has been considerable interest shown by lenders, and we project volume in this program in Fiscal Year 1995 of approximately $500 million.

The third program that we will be announcing is our GreenLine Revolving Line of Credit Program. The agency has piloted a 1-year and a 5-year revolving line of credit for the past 24 months. The revolvers that were being piloted were term loans modified to look like revolvers. That is, term lending credit criteria were used rather than an asset-based analysis. This prevented many loans from being approved. We believe that the new program, which has been developed with the assistance of the lending community and private sector companies, will make available the financing of accounts receivable, inventory and contracts on a sustained basis, which is desperately needed by small businesses.

Under the program, the SBA will approve a line of credit for a period of 5 years. The asset-based line will have a maximum SBA participation of $750,000 and will have a maximum SBA guaranty of 75 percent. I would like to add that the GreenLine is especially important to small businesses who were not damaged by recent disasters, such as the Northridge earthquake, but are presented with business opportunities in the recovery efforts.

Because only 8 to 10 percent of women entrepreneurs received 7(a) loans, the agency is developing a pre-qualification process aimed at increasing the number of loans to women. This initiative involves the establishment of a Women's Pre-Qualification Loan Pilot Program in our district offices in Chicago, Illinois; Albuquerque, New Mexico; Columbus, Ohio; Helena, Montana; New Orleans, Louisiana; Charlotte, North Carolina; San Francisco, California; and Salt Lake City, Utah.

Many of you are all too familiar with the obstacles small businesses face when seeking to expand into international markets. The SBA is working actively with the Department of Commerce and with the Export–Import Bank of the United States to institute the President's Trade Promotion Coordinating Committee objectives. To accomplish these objectives, we are proposing some

changes to the SBA's Export Finance Program, particularly the Export Revolving Line of Credit Program, or ERLC, to provide a meaningful solution to the long-standing export financing problems of small business.

Once these changes are complete, the SBA will make all trade loans under $750,000 and Exim will make loans from $750,000 and above. We will also harmonize our guaranty percentages with the SBA increasing its guaranty to 90 percent and Exim decreasing its guaranty to 90 percent.

In addition to discussing the 7(a) program, I was asked today to update the Committee briefly on SBA's secondary market activity, fixed-rate interest loans for SBA loans, and the SBA's One-Stop Capital Shops.

In Fiscal Year 1993, 9,278 SBA loans were sold in the secondary market. This represented approximately 37 percent of the loans approved in the same year. The average premium paid on these sales was 9.5 percent. In Fiscal Year 1994, as of January 31, 2,518, or approximately 28 percent of the loans approved in the same period were sold in the secondary market. The average yield on these loans was approximately 9.16 percent.

Under Public Law 103-81, SBA collects 50 percent of the premium generated in excess of 110 basis points on any sale in the secondary market. This premium income received by the agency from September 1993, when the income provision was activated, through January 1994 amounted to $3,349,000. As requested, a schedule of monthly income has been included as an attachment.

[Committee insert follows:]

PREMIUM INCOME FROM FEES ON SECONDARY MARKET SALES IN EXCESS OF 110 PERCENT OF PAR

Month	Secondary Market Sale	Premium Income	Percent
September 1993	$333,000,000	$315,000	0.09
October 1993	$118,000,000	$495,000	0.42
November 1993	$112,000,000	$494,000	0.44
December 1993	$275,000,000	$1,400,000	0.51
January 1994	$154,000,000	$645,000	042
Total		$3,349,000	

Recently, SBA published for comment in the Federal Register a provision to allow a lender to charge a higher rate of interest than is now allowed, providing the loan is made on a fixed rate. Our goal is to provide lenders incentive to make fixed-term loan rates while interest rates are low and to give small business borrowers as many options as possible.

Currently, lenders are not given incentive to make fixed-rate loans because the SBA allows the same initial rate of interest on both variable and fixed-rate loans.

Under the new provision, the SBA would allow a maximum of 1 percent over the rate being allowed for a variable rate loan. Currently, that would allow a fixed rate of 3.25 points above prime with maturities of 7 years or less, and 3.75 points over prime on terms longer than 7 years.

In Fiscal Year 1993, 2,527 of our loans, approximately 12.9 percent, were made under a fixed rate of interest. In Fiscal Year 1994, through December 31, 1993, 924 loans, or approximately 14.6 percent, have been made with a fixed rate of interest. We are currently researching the average interest rate charged during 1993 and 1994 for fixed-rate loans, and we will provide the Committee this information once it has been received.

The SBA plans to establish One Stop Capital Shops within the empowerment zones and enterprise communities which will be designated by Secretary Cisneros and Secretary Espy. This administration realizes that federal economic recovery efforts must reach into rural, inner city, and other economically distressed areas if we are to have a complete recovery. The SBA efforts will bring our financial management and technical assistance programs under one roof.

The SBA programs that will be involved in this effort include our Service Corps of Retired Executives (SCORE), the Small Business Development Center (SBDC), our Minority Small Business Program, Small Business Investment Company Program, the Certified Development Company Program, the 7(a) Loan Program, the Microloan Program and our Business Information Centers.

I would like to turn to the Disaster Assistance Program, and I would first like to thank the members of the Committee for your quick response on the recent emergency supplemental appropriations. These funds are vital to our ability to get staff on the ground and help the victims of the recent Northridge earthquake.

As you know, SBA disaster loans are the primary form of federal assistance for non-farm, private sector disaster losses. Since 1953, SBA has approved more than 1,143,000 disaster loans for more than $18.5 billion. SBA assistance is a critical source of economic stimulation in disaster-ravaged communities. The assistance we bring spurs employment and stabilizes the tax base. While it is unfortunate that the need for SBA disasater loans has grown so drastically in recent years, we feel fortunate that we have been able to respond.

In Fiscal Year 1990, after Hurricane Hugo and the Loma Prieta earthquake in the San Francisco Bay area, SBA approved 51,970 disaster loans for $1.32 billion. In Fiscal Year 1991, total disaster loan approvals fell to 12,451 for $356 million. After the Oakland fire, the Los Angeles civil disturbances, and the start of the response to Hurricane Andrew and Typhoon Omar, Fiscal Year 1992 disaster lending increased to 23,417 loan approvals for over $794 million.

In Fiscal Year 1993, as a result of Hurricanes Andrew and Iniki, Typhoon Omar, the winter coastal storms on the East Coast, the Midwest flood, and other disasters, SBA approved 58,644 disaster loans for $1.67 billion, the highest amount in our history. In Fiscal Year 1994, through close of business on February 27, SBA's disaster loan approvals have totaled 16,633 for $536 million.

Between Fiscal Year 1990 and Fiscal Year 1993, SBA approved 146,482 disaster loans for more than $4.1 billion, an average of nearly 37,000 disaster loans for more than $1 billion annually. We will exceed that average this fiscal year.

I will briefly summarize the SBA responses to the two mega-disasters during the past year. Mr. Chairman, as you very well know, the great Midwest flood of 1993 affected nine states covering 525 counties. As of February 21, 1994, SBA had approved 19,100 disaster loans for $540 million in the Midwest. This total will continue to increase as the last applications are processed. We expect the final total will be close to $600 million. The amount of disaster loans for the Midwest floods has already exceeded that for the Los Angeles civil disorder, for Hurricane Iniki, for Hurricane Hugo in the Caribbean and the Carolinas combined.

The SBA implemented three changes to the disaster program that allowed us to respond more efficiently to the great Midwest flood. We expedited processing for victims of the Midwest flood. Our goal was to reduce loan application processing time to between 7 and 20 days. We met this goal and were able to process home loan applications in an average of 7 days.

We instituted a simplified Disaster Business Loan Application. I would like to show you this. The darkened spots are the parts that were eliminated. This is the disaster business loan, and this is the economic injury loan.

Again, the darkened spots have been the parts that are eliminated. We have significantly reduced both business loan applications.

The CHAIRMAN. Are those only for disaster loans?

Ms. PULLEY. Yes.

The CHAIRMAN. Okay. Did you have that in place during the Midwest floods?

Ms. PULLEY. We instituted this in the middle of July.

The CHAIRMAN. Okay; during the floods.

Ms. PULLEY. Yes, during the floods. A copy of the application is included with the written statement.

Finally, we increased eligibility to relocate out of the flood zone to a safer site to help avoid future flood devastation.

On January 17, 1994, the Northridge community in the San Fernando Valley of Los Angeles was struck by an earthquake that registered 6.8. We now know that this has been one of the most damaging disasters in U.S. history. SBA disaster application activity for this disaster has been unprecedented. A statistical summary of the results is attached to this written statement. You may have this. We will be reviewing it later.

Through close of business on February 27, SBA has interviewed 335,130 victims and issued disaster loan applications to 325,773 of them. The total of applications issued already exceeds the sum of the applications issued in all nine states of the Midwest floods, both Florida and Louisiana after Hurricane Andrew, and the 1989 Loma Prieta earthquake in the San Francisco Bay area. Through February 27, not even 6 weeks after the earthquake, 69,257 victims have already filed disaster loan applications with SBA.

In responding to the needs of the Northridge earthquake the SBA has committed a staff of 2,256 through close of business February 27. This staff is growing daily. By comparison, after Hurricane Hugo and the Loma Prieta earthquake the total SBA disaster staff nationally peaked at 1,600. After the Los Angeles civil disorders, Hurricane Andrew, Typhoon Omar, and Hurricane Iniki, the total SBA disaster staff nationally peaked at about 2,100.

The current national total SBA disaster staff is about 2,850 employees. Most of the approximately 600 disaster employees not working on the earthquake are working on approved loans from the Midwest floods. Of the 2,256 staff working on the Northridge earthquake on February 27 about 1,978 were temporary disaster program employees, about 103 were permanent employees borrowed from other SBA offices, about 75 were Army Corps of Engineer employees on temporary detail, and 100 employees were disaster cadre employees from across the country. Thus, each member of the leadership corps of 100 cadre employees is directing and supervising the work of about 22 other employees, mostly newly hired temporaries.

The furious pace of interviewing victims and issuing applications has required that most of the resources available in the early weeks be devoted to that activity. SBA's disaster staff in the Los Angeles area reached the 1,000 level within 3 weeks and has been above that level since. SBA has staffed Disaster Application Centers established by the Federal Emergency Management Agency, or FEMA, and the State of California at 96 locations, in addition to FEMA tele-registration centers at seven sites across the nation. SBA has issued applications from a total of 107 separate sites, an average of 3,045 applications issued per site.

The sheer magnitude of the effort to interview victims, issue applications and answer questions, together with logistical obstacles inherent in expanding the Disaster Area Office in Sacramento where applications are processed from one location to three buildings, has delayed the processing of the applications already filed. The number of telephone lines at the Sacramento Disaster Area Office illustrates the logistical challenge. Before the earthquake, the office had 99 telephone lines. After the earthquake, it was necessary to expand into three buildings to meet the demand, and the office will soon have 556 telephone lines.

The applications processed to date have taken an average of 15.7 days for home loans and 18.6 days for business loans. We know that those averages will slip further due to the bulge already in the pipeline. However, the actions we have already taken to recruit, hire and train new staff, expand office space, and acquire additional telephones and office equipment will enable us to address this backlog and deliver reasonable average processing times. In an effort to respond quickly during this time of crisis, we have had to rely more heavily on the regular SBA employees in the California offices. As a result, we are experiencing slightly longer processing times in our regular loan programs in California.

Clearly, the dollar amount of SBA disaster loan approvals for the Northridge earthquake will exceed any other disaster in history. In fact, we expect the total will be similar to or greater than the Midwest floods, Hurricane Andrew and the Loma Prieta earthquake combined. Again, as during the Midwest flood, the SBA implemented several program enhancements to expedite disaster loan applications in the wake of the Northridge earthquake to speed relief to the disaster victims.

We simplified home loan filing requirements, increased disaster loan limits from $100,000 to $200,000, extended economic injury eligibility for landlords, modified the major source of employment cri-

teria to provide larger loans where necessary to a community, and we gained the cooperation of the IRS to provide service to the SBA on-site. This assistance from the IRS is instrumental to the SBA's ability to expedite processing. A final change to the SBA's disaster program which was implemented in last summer's emergency supplemental appropriations legislation was to increase the $500,000 limitation on disaster loans to $1.5 million.

We recognize that with a disaster of this magnitude and the large number of temporary employees needed to meet demand, the SBA must be even more vigilant in protecting taxpayers' money against fraud and abuse. So we have instituted a number of measures which include the "rule of two," which requires that there are two signatures to approve a loan.

We require Federal Income Tax Returns for the 2 preceding years, a current credit report, and independent verification and calculation of damages by an SBA loss verifier. We require a credit and repayment analysis to be reviewed by a supervisory loan officer. We require that loans over $10,000 are secured by the best collateral available. We do a check with the FEMA database to verify non-duplication. Funds are disbursed in bunches rather than in one single payment. In many cases, checks are disbursed to two parties, including the contractor as one of the payees. And SBA's Inspector General is including a segment on fraud detection in each training session for new employees.

Again, we appreciate the prompt approval by the Congress of the President's request for an emergency supplemental appropriation to provide funding for both the expected loan approvals and for the resources to deliver good service to the earthquake victims.

Before I conclude my remarks, Mr. Chairman, I would like to note that in fulfilling our key disaster assistance role, the SBA works in partnership with the Federal Emergency Management Agency, FEMA. The new leadership at FEMA, headed by Director James Lee Witt, has improved interagency cooperation and communication. FEMA gave SBA substantial input into newsletters circulated in the Midwest flood area and has invited SBA to participate regularly in a FEMA satellite broadcast in the Midwest.

Once again, in the Northridge earthquake response, SBA and FEMA have worked closely together to deliver program assistance and to communicate clearly with the victims. At both the headquarters and field levels, SBA and FEMA have met regularly and cooperated to an unprecedented degree.

Mr. Chairman, this concludes my formal remarks. I would be happy to answer any questions that you may have.

[The prepared statement of Ms. Pulley follows:]

Prepared Statement of Cassandra Pulley, Deputy Administrator, Small Business Administration

Mr. Chairman and members of this Committee, it is an honor for me to appear before you today to review two very important programs of the Small Business Administration; the 7(a) General Business Loan Program and our Disaster Loan Program. I am accompanied by Bernard Kulik, Assistant Administrator for Disaster Assistance; and John Cox, Assistant Administrator for Financial Assistance.

Our 7(a) business loan program is meeting the needs of thousands of small businesses each year, but with a demand on our services that dramatically increases each year. It is because of the work of this Committee along with that of the House Small Business Committee that I am able to say we are meeting demand.

The legislative changes approved by this Committee and the Congress last summer included the following changes to the 7(a) program. The changes lowered the guaranty percentage on Preferred Lending Program loans from 80% to 70%; reduced the maximum guarantee for real estate loans greater than $155 thousand to 75%, allowed SBA to charge a fee on all loans sold in the secondary market and approved a sharing of returns on those loans sold at a price exceeding 110% of the outstanding balance. These changes lowered the subsidy rate on the 7(a) program which dramatically increased the 7(a) program level. This allowed SBA, for the first time in several years, to continue 7(a) lending with no premature spending of second quarter program subsidy dollars, or holding demand for loans down artificially by trying to slow volume.

We believe that we will be able to continue lending throughout this year with no interruption in service and no requests to the Congress to pass a supplemental appropriation. That is very good news to both our small business customers and to our lending partners. Again, thank you for your support. With this Committee's continued assistance we fully intend to meet demand through realistic budgeting, innovative program development and business-like approaches in operating our 7(a) loan programs.

This is also a good opportunity to discuss the current state of SBA's disaster loan program. Fiscal Year 1993 was the biggest year in the history of the SBA for our disaster loan program for home and business disaster loans. Already it appears that fiscal year 1994 will top last year. I will discuss with you today SBA's response to the 1993 Midwest floods and the Northridge earthquake in California. SBA's disaster role is part of the larger Federal disaster response. In both the Midwest flood disaster and in the Northridge earthquake, the personal involvement and leadership of President Clinton brought a new spirit of cooperation and dedication to the entire Federal effort, helping to facilitate the coordinated delivery of assistance from SBA and other agencies.

Now I will turn to the 7(a) loan program.

7(a) General Business Loan Program

For the past several years we have seen dramatic increases each year in the 7(a) Guaranty Loan Program. The program has grown by some 120 percent since FY 1991, when we approved $4.1 billion in loans. We have included as an exhibit, the number of loans and dollars approved in our 7(a) program each year since 1988.

SMALL BUSINESS ADMINISTRATION

7(A) GUARANTY BUSINESS LOAN APPROVALS

Fiscal Yr.	**Number**	**Gross Dollars**
1994 (1/31/94)	8,884	$2,267,398,878
1993	25,026	6,409,913,368
1992	22,466	5,624,313,181
1991	17,330	4,103,807,488
1990	16,736	3,843,425,979
1989	14,872	3,229,436,794
1988	14,988	3,000,770,037

We are projecting a 1994 loan volume of approximately $7.2 billion that will generate approximately 29,000 loans. We are presently lending at an annual rate of $6.8 billion, however we do expect to be lending at a 10% higher rate in the second half of the fiscal year, over that of the first half. Therefore, we expect

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that the 1994 volume will reach the estimated $7.2 billion level.

Our 1995 budget requests a $7.5 billion program level and with an approximate carryover of $1.5 billion, we will have available approximately $9 billion. This will be adequate to meet our expected demand for the program for fiscal year 1995. However, any increases over our budget estimate of $7.0 billion will reduce our carryover availability in 1995.

7(a) Initiatives to Meet Customers' Credit Needs

In the past nine months, Administrator Bowles has held a series of Town Hall Meetings where we learned the credit needs of small business and how SBA could better serve those needs. In response to those meetings, we have designed and will be implementing several innovative loan programs that will have acceptance throughout the small business community. These initiatives are variations of the 7(a) program. The Low Documentation (Low Doc), the Loan Express, the GreenLine, the Women's Business Prequalification program, and the Export Revolving Line of Credit Program will fulfill specific credit needs of small business.

Low Documentation Loan Program

The Low Doc Loan Program is a simplified loan application package for small businesses which need financing in an amount less

than $100,000. These loan applications are only one page long, and focus more on the applicant's character and history than on traditional credit criteria such as collateral. This program has been a pilot in our San Antonio District Office since December, and has been expanded to all of Region VI. This includes the states of Texas, New Mexico, Oklahoma, Arkansas, and Louisiana. We have approved 147 loans for $7.3 million. The average loan size is approximately $50,000 and the average size of the business is 4 employees. We are finding that the program is bringing many small lenders back to the small business market. Early results show that 18.3% of the loans are going to women-owned businesses and 23.8% going to minority-owned businesses. We are very encouraged that this program will reach the sector of small business that has had the greatest problem in obtaining financing. We are currently evaluating the loans that have been made under the pilot and hope to roll-out this program to the rest of the nation very shortly. We estimate that approximately $500 million in loans will be made under this program in fiscal year 1995.

Loan Express

We are considering the establishment of a Loan Express Program as a pilot program to allow lenders to use their own loan application, supporting documents and legal forms. The lender would process, approve, service and liquidate the loans. The maximum amount of a loan under this program would be $100,000.

Lenders brought into this pilot program would agree to a maximum SBA guaranty of 50%. There has been considerable interest shown in this program by lenders and we project volume in this program in fiscal year 1995 of approximately $500 million.

The Loan Express and the Low Doc programs reflect the Agency's commitment to fill the need for small amounts of capital that are so difficult to obtain through normal credit channels.

GreenLine

The third pilot program that we will be announcing is our GreenLine Revolving Line of Credit Program. The Agency has piloted a one year and a five year revolving line of credit for the past 24 months. The revolvers that were being piloted were term loans modified to look like revolvers. That is, term lending credit analysis were used rather than an asset based analysis. This prevented many loans from being approved. We believe that the new program that has been developed with the assistance of the lending community and private sector companies experienced in servicing these types of loans, will make available the financing of accounts receivable, inventory, and contracts on a sustained basis. Under the program, SBA will approve a line of credit for a period of 5 years. The asset based line will have a maximum dollar amount of $750,000, SBA share, and will have a maximum SBA guaranty of 75%.

During the Town Hall Meetings, it became very clear that revolving credit is needed the most by small business. We received more requests for this type of lending both from the small business community and our lending partners, than any other program. We expect that this credit facility will generate approximately $1.0 billion in loans in 1995.

Women's Business Prequalification Program

In keeping with the Administration's priority to alleviate the credit crunch for small businesses, and based on recent history of 8-10% of women entrepreneurs receiving SBA 7(a) loans, the Agency is developing a prequalification process aimed at increasing the number of SBA loans to women. This initiative involves the establishment of a Women's Pre-Qualification Loan Pilot Program in the Chicago District Office to increase the number of women business owner applicants and successful recipients of SBA 7(a) guarantee loans. Over time, this pilot program will be expanded to additional sites in Albuquerque, New Mexico; Helena, Montana; New Orleans, Louisiana; Columbus, Ohio; Charlotte, North Carolina; San Francisco, California; and Salt Lake City, Utah.

Export Revolving Line of Credit Program

In September, 1993, Administrator Bowles testified before the Senate Banking Committee on SBA's role in the Trade Promotion

Coordinating Committee (TPCC). The TPCC was established by the Congress under the Export Enhancement Act of 1992 (P.L. 102-429, Section 201) in order to address the difficulties American businesses have working through the maze of the 19 Federal Agencies of the U. S. Government which are involved in international trade.

The SBA is fully supportive of the TPCC and is working actively with the Department of Commerce and with the Export-Import Bank of the United States (Eximbank) to demystify the world of international trade for our small business customers.

Many of you are all too familiar with the obstacles small businesses face when seeking to expand into international markets. From the initial challenge of finding a buyer for their product or service, to ensuring that they can finance a sale -- and get paid -- if a buyer is found, small businesses often have needs that are distinct from those of larger firms.

After examining SBA's export finance programs -- particularly the Export Revolving Line of Credit Program (ERLC) which is a program coming under our 7(a) authority -- we were disappointed with the volumes that have been generated in the past. We are proposing some changes to these export finance programs to provide a meaningful solution to the long-standing export financing problems of small business. These changes are necessary to harmonize SBA's export finance programs with those of the Exim

bank. Once these changes are complete, SBA will make all trade loans under $750,000 and Exim will make loans from $750,000 and above. This process, when completed, will eliminate confusion over the two programs both for the small business and the lender.

We will be requesting that the guaranty percentage on ERLC loans be raised from the various guaranty levels provided for in the 7(a) legislation to an across the board guaranty rate of 90%. Eximbank's guaranty percentage will be reduced from the current 100% to the 90% level. We will also be asking to eliminate the 36 month limit on the term of ERLC loans. We will also request authority for SBA to guaranty standby letters of credit. Standby letters of credit are a common feature of many international sales contracts and are intended to ensure the performance of exporters with whom a foreign buyer may have little or no experience. Operating much like a performance bond in a domestic construction contract, standbys are very prevalent in international transactions. Eximbank and most states permit standby letters of credit financing under their export financing programs. However, SBA is unable to do so under its present authority.

We will also be asking that the present $250 thousand cap on working capital loans made under SBA's International Trade Loan (ITL) program be eliminated. The ITL authorizing statute now allows SBA to provide total export financing of up to $1.25 million -- $1 million for financing U.S. based facilities and equipment,

plus up to $250,000 for working capital. SBA has received numerous requests from lenders to finance working capital loans in excess of the $250 thousand limit but within the combined cap of $1.25 million. The change we recommend would result in a much more flexible program consistent with the needs of small business.

Another change being proposed is the elimination of the present statutory prohibition on ITLs of $155,000 or less. The authorizing legislation for the ITL program requires an SBA guarantee on such loans of not less than 85%. A separate provision of the authorizing language requires SBA to guarantee not less than 90% of loans $155,000 and under. Consequently, SBA's policy has been to preclude guarantees of ITL loans of $155,000 and under. As a result, SBA has not been able to finance exporters who may meet all the ITL program criteria -- but for the fact that the loan requested is too small.

We believe that the above changes will give SBA the tools to make the ERLC program one that will meet the needs of our small business customers and will harmonize our programs with those of Eximbank.

Without all-important capital, many businesses cannot survive; and clearly without capital, small businesses cannot grow and cannot create jobs -- it's as simple as that. And without these businesses we will not have a sustained and widespread economic

recovery. It is therefore vitally important that we, the Administration, and the Congress, work together to ensure that these critical needs are met through full funding of the 7(a) loan program.

Based on past growth of the 7(a) program and what we believe the demand will be in the future, with normal growth, and these changes to our programs, we are projecting a program demand for fiscal years 1996 and 1997 of a 20 - 30 percent increase each year over our 1995 level.

I have been specifically asked to address certain items of interest to this Committee. They include the secondary market, fixed rate interest on SBA loans, and One Stop Capital Shops.

Secondary Market Activity in the 7(a) Program

In fiscal year 1993, 9,278 loans were sold in the secondary market. This represented approximately 37% of the loans approved in the same year. The average premium paid on these sales was 9.50%. In fiscal year 1994, (as of 1/31/94) 2,518 or approximately 28% of the loans approved in the same period were sold in the secondary market. The average yield on these loans was approximately 9.16%.

Under Public Law 103-81, SBA collects 50% of the premium generated in excess of 110 basis points on any sale in the secondary market. This premium income received by the Agency from September, 1993, when the income provision was activated, through January, 1994, amounted to $3,349,000. As requested, a schedule of monthly income has been included as an attachment.

Interest Rates: Fixed and Variable

Recently, SBA published in the Federal Register for comment, a provision that would allow a lender to charge a higher rate of interest than is now allowed, providing that the lender would make the loan on a fixed rate. The Agency's intention was to give some incentive to a lender to make available long-term fixed rate loans while interest rates are at a low point. Currently, because SBA only allows the same beginning rate of interest on both variable and fixed rates, lenders are more apt to go with a variable rate thereby protecting their spreads in future years. Under the new provision, SBA would allow a maximum of 1% over the rate being allowed for a variable rate. Currently, that would allow a fixed rate of 3 1/4 points over prime with maturities of 7 years or less and 3 3/4 points over prime on terms longer than 7 years.

In fiscal year 1993, 2,527 or approximately 12.9% of our loans were made under a fixed rate of interest. In fiscal year 1994, through 12/31/93, 924 loans or approximately 14.62% have been made

with a fixed rate of interest. We are currently researching the average interest rates charged during 1993 and 1994 for fixed rate loans and we will provide the Committee this information once it has been received.

One Stop Capital Shops

We realize that Federal economic recovery efforts must also address rural, inner-city and economically distressed areas. Most of these areas have been under served by Federal small business assistance programs and services. Therefore, we plan to establish One Stop Capital Shops within the Empowerment Zones and Enterprise Communities designated by Secretary Cisneros and Secretary Espy.

These Zones and Enterprise communities will be selected through a competitive bid process and we anticipate selections will be made in July of this year. SBA's participation will bring our financial, management, and technical assistance programs under one roof in the selected areas. The programs that SBA has made available in the Request for Proposals that has been issued by the Department of Housing and Urban Development includes our Service Corps of Retired Executives (SCORE) and Small Business Development Center (SBDC) resource partners, our Minority Small Business Program, Small Business Investment Company Program, Certified Development Company Program, 7(a) program, Microloan Program and Business Information Centers. These programs will support this

initiative by providing business development, lending, counseling, training and technical assistance at these locations. We hope to establish nine centers by next year and our FY 1995 budget request includes $18.6 million to fund the program and administrative costs of these centers. Of this $18.6 million, $15.1 million will be used to fund $375 million in financial assistance through our 7(a), Certified Development Companies (CDC), Small Business Investment Companies (SBIC) and Microloan programs.

The community applying for the One Stop Capital Shop is responsible for putting together the plan of what services should be included and are encouraged to identify all local, state and Federal resources and private sector providers and consider co-locating such resources and programs within the One Stop Capital Shop.

We believe that the loans within the Empowerment Zones will have less equity injection and collateral than is normally seen and therefore recovery on losses will be less. Since the Agency has not tracked loan losses by census tract, we do not have specific historical information to rely on in estimating the level needed for loan loss reserves. The inclusion of these factors only marginally effects the blended subsidy rate in the programs, as requested in our fiscal year 1995 budget.

Now I will turn to SBA's Disaster Assistance Program.

Disaster Assistance Program

SBA's disaster loans are the primary form of federal assistance for nonfarm, private sector disaster losses. They are the only SBA assistance not limited to small businesses: they help fund rebuilding for homeowners, renters, businesses of all sizes and nonprofit organizations. This assistance is a critical source of economic stimulation in disaster-ravaged communities, spurring employment and stabilizing tax bases.

When disaster victims borrow to repair uninsured damages, the low interest rates and long terms available from SBA make recovery affordable. SBA loans are tailored to the borrowers ability to repay, thereby minimizing interest subsidies. And these loans are repaid to the Treasury, reducing federal disaster costs compared to other forms of assistance, such as grants. Moreover, providing loans instead of grants eliminates an incentive for property owners to under-insure against risk. Disaster loans require borrowers to maintain appropriate hazard and flood insurance coverage.

The need for SBA disaster loans is as unpredictable as the weather. In fiscal year 1990, after Hurricane Hugo and the Loma Prieta earthquake in the San Francisco Bay area, SBA approved 51,970 disaster loans for $1.32 billion. In FY 1991, total disaster loan approvals fell to 12,451 for $356 million. After the Oakland fire, the Los Angeles civil disorder and the start of the

response to Hurricane Andrew and Typhoon Omar, FY 1992 disaster lending increased to 23,417 loan approvals for over $794 million. In FY 1993, as a result of Hurricanes Andrew and Iniki, Typhoon Omar, the winter coastal storms on the East Coast, the Midwest floods and other disasters, SBA approved 58,644 disaster loans for $1.67 billion, the highest amount in our history. In FY 1994, through close of business on February 27, SBA's disaster loan approvals have totalled 16,633 for $536 million.

Between FY 1990 and FY 1993, SBA approved 146,482 disaster loans for more than $4.1 billion, an average of nearly 37,000 disaster loans for more than $1 billion annually. We will exceed that average this fiscal year. Since 1953, SBA has approved more than 1,143,000 disaster loans for more than $18.5 billion.

During the early 1980s, and with the strong support of this committee, SBA reorganized its disaster loan making system into four Disaster Area Offices. Professional management and staff dedicated solely to making disaster loans report directly to a single program head in Central Office in Washington, D.C. The supervisory and technical leadership responsibilities are performed by a disaster "cadre," a group of about 200 employees with full competitive civil service status which is guaranteed employment only six months of each year.

To attract and retain outstanding employees, we have kept the total number of cadre employees down to a level we expect to employ

full time all year. The cadre leadership is supplemented by temporary employees, the number of which fluctuates widely in accordance with workload needs. The number of disaster temporary employees reached a peak of about 1,900 during FY 1993, mostly as a result of the Midwest floods. After reducing the staff below 800, it has again swelled in response to the Northridge earthquake. Currently, the number of disaster temporary employees is up to about 2,475, the highest level since the creation of the Disaster Area Offices.

The new program structure has evolved and matured since the reorganization. We have refined our internal procedures, developed key computer support and information systems, trained our core staff and strengthened the organization in a variety of ways. The quality of our work, especially performing thorough analysis and adhering to sound credit practices, has been one of our priorities. The technical skills of the disaster staff have been upgraded, and we have concentrated on recruiting outstanding employees. Additionally, we have placed strong emphasis on national uniformity, which is not only important to the quality of our disaster lending, but also to our ability to shift employees and resources among offices to meet sudden changes in workload. This interchangeability has been instrumental in achieving a very fast response time while maintaining high quality.

We are exceedingly proud of our organization which has helped us respond so successfully to the unusual number of disasters

during the past four years. We are also pleased that the permanent, professional staff in our disaster offices has allowed our regular field offices to continue the Agency's vital work with small businesses with minimal disruption.

I will summarize the SBA's responses to the two mega-disasters during the past year, the Midwest Floods and the Northridge earthquake on January 17 in the Los Angeles area.

Great Midwest Flood of 1993

The Great Midwest Flood of 1993 affected nine states (Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin). All were declared major disaster areas by the President. The total declared area is vast, covering 525 counties. This area presented a logistical challenge in providing direct service; the flood area extended to three of the four Disaster Area Offices (Atlanta, Ft. Worth and Sacramento). The fourth office, in Niagara Falls, provided substantial support to the others, so all of the Disaster Area Offices played a significant role in the response to the Midwest floods.

SBA disaster loan application activity has been heavy, as shown in Table A. It is apparent that the rate of application returns (applications filed with SBA as a share of applications issued) is abnormally low. Generally, about 40 percent of applications issued are returned to SBA as loan requests. The

remaining victims usually sustained minor damage and do not seek government assistance.

In the Midwest floods through close of business February 27, only 28.6 percent of the applications issued had been returned to SBA. The application filing period for home and business physical losses is now closed (it was set by the Federal Emergency Management Agency (FEMA) as November 15, and it was extended to February 15, 1994). SBA made extensive efforts to contact and offer help to those who have not filed loan applications. Based on our contacts with the nonfilers, we believe several factors account for the low application rate. Table B lists the primary reasons.

As of February 21, 1994, SBA had approved 19,179 disaster loans for $540.2 million (see Table C for a detailed breakdown by state and loan type). This total will increase further as the last applications are processed. We expect the final total will be close to $600 million. The amount of disaster loans for the Midwest Floods has already exceeded that for the Los Angeles civil disorder (5,562 disaster loans for $332.4 million), for Hurricane Iniki (5,872 disaster loans for $203.4 million), and for Hurricane Hugo in the Carribean and Carolinas combined (26,938 disaster loans for $473.4 million). In terms of SBA disaster lending, the Midwest floods are not as large as Hurricane Andrew (25,833 disaster loans for $676.6 million), but are expected to approximate the Loma Prieta earthquake (16,033 disaster loans for $592.6 million).

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In many respects, the Midwest floods are typical of other disasters. About 75 - 80 percent of SBA's disaster loans are to homeowners and renters, with the remaining 20 - 25 percent to businesses. Of the disaster loan dollars, generally about half are to homeowners and renters and about half are to businesses. The Midwest floods closely parallel these norms (14,924 home loans are 78% of the total, and $242.7 million in home loans is 45% of the total). Additionally, the average disaster home loan size for the Midwest floods ($16,260) is close to the national average for FY 1993 ($20,231).

However, the average business physical disaster loan size in the Midwest ($68,597) is greater than the national average for FY 1993 ($51,653). This reflects more severe business damage than that inflicted by average disasters. Flood damage was concentrated along waterways and transportation routes. As could be expected, the average physical disaster business loan size is especially large in the areas of the most severe damage ($98,523 in Missouri and $64,771 in Iowa). Table D shows the average loan size by state and loan type.

In responding to the challenges of the Midwest floods, both the Congress and the SBA initiated some changes.

Congress increased the limit on disaster business loans from $500,000 to $1,500,000, for all disasters commencing on or after

April 1, 1993. This statutory limit applies to all disaster loans to a borrower (including its affiliates) from any single disaster. The law retains SBA's discretion to waive this statutory limit for businesses which are major sources of employment. Through February 24, SBA has approved 122 disaster loans to businesses for more than the previous $500,000 ceiling, of which 37 were over $1 million. These 122 loans total $110.2 million, or an average of $902,959 per borrower. Borrowers in the Midwest floods account for 109 of the 122 loans over $500,000 approved to date. Table E lists the number of businesses with disaster loans over the previous $500,000 limit, and the total amount of those loans, by state.

SBA disaster loans are crucial to businesses recovering from a disaster. Jobs in these companies usually depend on SBA disaster assistance. We found in the past that each physical disaster business loan borrower averages about 10.5 employees. Applying that average to the Midwest floods, the 2,613 physical business borrowers with loans approved through February 27 would have about 27,437 employees. And that estimate does not include the employees of the share of the 1,618 economic injury disaster loan borrowers which are not also physical loan borrowers. While SBA has not collected employment data on businesses borrowing more than $500,000, we know that the businesses receiving loans for more than the previous $500,000 limit employ substantially more workers than the average disaster business loan borrower. Clearly, the Congressional action to increase the disaster business loan limit

has benefited significant numbers of businesses, helped preserve the economic bases of numerous communities, and saved thousands of jobs. Our experience to date indicates that the proportion of disaster business loans over the old $500,000 limit is abnormally high in the Midwest floods. Of the 122 loans approved over the former $500,000 limit through February 24, 109 were due to damages sustained in the Midwest floods.

SBA's initiatives to respond to the victims of the Midwest flooding are an important part of this story.

1. Expedited Processing. To assist victims of the Midwest floods, SBA Administrator Erskine Bowles asked the disaster loan program to reduce its application processing times. He gave us the goal of completing processing most loan applications within seven to 20 days, with home loans being processed more quickly than business loans.

   We have met those goals -- an impressive achievement. From receipt to decision, we have processed home loan applications in an average of 7 days, with 72 percent of the home loans completed within 7 days. The preparation and issuance of loan closing documents took about one additional day.

   For business physical loan applications, from receipt to decision, we have averaged 14 days, with 86 percent completed within 21 days. The preparation and issuance of loan closing documents averaged about three additional days.

   And for rental property loans and economic injury disaster loans, the average processing times have been even faster than for the physical business loans.

   We are very pleased to have achieved this record of prompt service. We are also grateful to the Internal Revenue Service (IRS) for their invaluable assistance. Instead of the SBA asking victims to locate copies of their tax returns for SBA, we have given the victims the

alternative of authorizing the IRS to provide the tax return information directly to SBA by signing a simple IRS form. Thousands of victims have avoided the burden and delay of obtaining copies of their own returns by using this procedure. The IRS has been extremely cooperative in providing rapid turnaround to our requests so we can expedite processing.

2. Simplified Disaster Business Loan Application. Before the Midwest floods, SBA had started working on a revised and simplified disaster business loan application. In response to feedback we received that some businesses were encountering difficulty in meeting all of SBA's application filing requirements, Administrator Bowles asked us to quickly complete an intensive review of our process. We did, and we have adopted a substantially simplified disaster business loan application. A copy of the simplified form now in use is attached to my written statement.

   The simplified application was made available to all flood victims who had not already submitted an application. The response has been extremely positive. Additionally, we have developed a new set of instructions and program information, which we plan to issue together with a new business loan application format. We have also completed plans for making similar improvements to the disaster home loan application as well. These enhancements are ready to be implemented soon.

3. Increased Eligibility to Relocate out of Flood Zone. SBA expanded its loan eligibility giving property owners in flood hazard areas more assistance for relocation. In cases of substantial flood damage, as defined by the National Flood Insurance Program, SBA increased eligibility for owners of property in flood hazard areas to an amount sufficient to build or buy a replacement property outside the flood hazard area. This replacement cost alternative is especially beneficial to those whose cost of repairs (which was the previous eligibility limit) is not sufficient to fund the building or purchase of a replacement property outside a flood hazard area.

   This option helps avoid future flood devastation by making relocation to a safer site possible. The initiative complements the efforts of other federal agencies, as well as state and local officials.

SBA had 899 disaster employees working at the peak of the Midwest flood response. As the loan processing phase winds down,

substantial SBA staff is still required to close loans, disburse funds, monitor construction progress, modify loan terms, and provide a variety of services and assistance to the borrowers.

Of course, in much of the Midwest, construction season will begin again in the spring.

Northridge Earthquake

On January 17, 1994, a 6.8 earthquake centered near Northridge in the San Fernando Valley of Los Angeles struck. We now know that this has been one of the most damaging disasters in U. S. history.

SBA disaster loan application activity has been unprecedented (a statistical summary is presented in Table A attached to this written statement). Through close of business on February 27, SBA has interviewed 335,130 victims and issued disaster loan applications to 325,773 of them. This total of applications issued already exceeds the sum of the applications issued in all 9 states of the Midwest floods, both Florida and Louisiana after Hurricane Andrew, and the 1989 Loma Prieta earthquake in the San Francisco Bay area combined (about 282,000 applications issued).

Through February 27, not even 6 weeks after the earthquake, 69,257 victims have already filed disaster loan applications with SBA. This total compares to 8,131 applications received within the

first 6 weeks of the Midwest floods (24% of the eventual total), 13,043 received within the first 6 weeks after Hurricane Andrew (29% of the eventual total), and 7,657 received within the first 6 weeks after the Loma Prieta earthquake (30% of the eventual total).

Already, more than 21% of the applications issued have been returned. The return rate continues to increase each day. While applications are still being issued at a daily rate of over 3,000, victims are filing their applications with SBA at a daily rate of over 2,000. It is still too early to determine how many applications will eventually be filed with SBA. It appears that the return rate will exceed 30%, could reach the 40% normal level, and might equal the 47% return rate experienced after the Loma Prieta earthquake. If the total number of applications ultimately issued is about 350,000, then those return rates would result in the number of applications submitted to the SBA totalling 105,000 at 30%, 140,000 at 40% or 164,500 at 47%. By way of comparison, the total number of applications submitted through February 27 for the Midwest floods is 33,634, and the final total for Hurricane Andrew was 45,660 and for the Loma Prieta earthquake was 25,510.

Clearly, the dollar amount of SBA disaster loan approvals for the Northridge earthquake will exceed any other disaster in history. In fact, we expect the total will be similar to or greater than the Midwest floods, Hurricane Andrew and the Loma Prieta earthquake <u>combined</u>.

Through February 27, the SBA has already processed 11,065 applications from victims of the Northridge earthquake. SBA disaster loan approvals were 6,017 for $185.3 million. The loan approval total includes 5,576 home loans for $164.9 million and 441 business loans for $20.4 million. Approvals are now mounting at a daily rate of about $15 million, and this daily pace is expected to increase as more business applications come through the pipeline and newly trained staff become more productive.

It is still too early to gauge the impact, or potential impact, of the increase in the statutory limit on disaster business loans from $500,000 to $1.5 million in the Northridge earthquake. As of February 24, 2 loans over $500,000 have been approved (see Table E attached to this written statement). One loan in Santa Monica is for $775,700 and a second loan in Ventura County is for $1.5 million. We know several more large loan applications are nearing the approval stage. Given the severity of earthquake damage in the business sector, it is likely that a substantial number of large loans will be requested and approved.

The average loan sizes to date in the Northridge earthquake will probably increase, because typically the first applicants submitting applications tend to have less damage than average. Through February 27, the average home loan approved was $29,581, more than the average home loan size of $26,641 after the Loma Prieta earthquake, suggesting that the average Northridge home size

will be higher than normal. The average business loan approved through February 26 was $46,204, compared to an average business loan size after Loma Prieta of $66,835. As applicants with more severe damage submit their loan requests, the average business loan size will increase, probably to at least the average after Loma Prieta and perhaps higher.

In responding to the needs of the Northridge earthquake, the SBA has committed a staff of 2,256 through close of business February 27. This staff is growing daily. By comparison, after Hurricane Hugo and the Loma Prieta earthquake, the total SBA disaster staff nationally peaked at about 1,600, and after the Los Angeles civil disorders, Hurricane Andrew, Typhoon Omar and Hurricane Iniki, the total SBA disaster staff nationally peaked at about 2,100. The current national total SBA disaster staff is about 2,850. Most of the approximately 600 disaster employees not working on the earthquake are working on approved loans from the Midwest floods.

Of the 2,256 staff working on the Northridge earthquake on February 27, about 1,978 were disaster temporary employees, about 103 were permanent employees borrowed from other SBA offices, about 75 were Corps of Engineers employees on temporary detail, and 100 were disaster "cadre" employees from across the country. Thus, each member of the leadership core of 100 "cadre" employees is directing and supervising the work of about 22 other employees,

mostly newly hired temporaries.

The furious pace of interviewing victims and issuing applications has required that most of the resources available in the early weeks be devoted to that activity. SBA's disaster staff in the Los Angeles area reached the 1,000 level within 3 weeks, and has been above that level since. SBA has staffed Disaster Application Centers (established by the Federal Emergency Management Agency (FEMA) and the state) at 96 locations, in addition to FEMA tele-registration centers at 7 sites across the nation. SBA has issued applications from a total of 107 separate sites, an average of 3,045 applications issued per site.

The sheer magnitude of the effort to interview victims, issue applications and answer questions, together with logistical obstacles inherent in expanding the Disaster Area Office in Sacramento (where applications are processed) from 1 location to 3 buildings, has delayed the processing of the applications already filed. The number of telephone lines at the Sacramento Disaster Area Office illustrates the logistical challenge. Before the earthquake, the office had 99 telephone lines. After the earthquake expansion into 3 buildings, the office will have, by February 28, 556 telephone lines to meet the demand. The applications processed to date have taken an average of 15.7 days for home loans and 18.6 days for business loans. We know that those averages will slip further due to the bulge already in the

pipeline. However, the actions we have already taken to recruit, hire and train new staff, expand office space, acquire additional telephones and office equipment, will enable us to address this backlog and deliver reasonable average processing times.

We appreciate the prompt approval by the Congress of the President's request for an emergency supplemental appropriation to provide funding for both the expected loan approvals and for the resources to deliver good service to the earthquake victims.

To better meet the unique challenges presented by the Northridge earthquake, SBA Administrator Erskine Bowles has directed several program enhancements.

1. <u>Simplification of Home Loan Filing Requirements.</u> Before the earthquake, SBA has planned several simplifications of the disaster home loan application. But these changes had not been through all clearance channels and the time-consuming printing process had not been started.

   To help meet the needs in Los Angeles, we quickly obtained appropriate clearances and began overprinting the existing home loan application form to implement these steps. Specifically, we no longer ask all applicants to provide, at the time of application, proof of ownership of the damaged property and legal descriptions sufficient to prepare collateral documents. Instead, we ask for that information (e.g., copies of deeds) only after determining that we can approve a loan. This action reduces the documentation a victim needs to locate and submit with the initial application. Our experience to date in Los Angeles is that this action has helped victims more readily file their applications with SBA.

2. <u>Increase in Disaster Home Loan Limits.</u> Just as the Congress was confronted with disproportionately heavy flood damage in the Midwest exceeding the statutory loan

limit of $500,000, the earthquake damage in Los Angeles has caused uninsured damages for many homeowners in excess of the administrative limits of $100,000 for real estate and $20,000 for personal property. Moreover, the cost of living has increased by about 75% and the cost of reconstruction by more since those administrative limits were adopted in 1984.

With these limits posing an impediment to the SBA's ability to aid thousands of homeowners, Administrator Bowles increased the home loan limits to $200,000 for real estate and $40,000 for personal property. These limits are expected to be sufficient to meet the needs of most middle income families in Los Angeles and many other areas across the country in future disasters.

3. <u>Economic Injury Eligibility for Landlords.</u> The Economic Injury Disaster Loan (EIDL) program is intended to help small businesses adversely impacted by a disaster to obtain funds to meet necessary obligations until resumption of normal operations, to the extent the business and its owners have exhausted their own resources and have no other recourse. In the past, the EIDL program has used the same guidelines as the regular 7(a) program to determine eligibility as a small business. Because the 7(a) program has wanted to avoid supporting speculative activity and passive investing, rental properties such as apartments have been excluded from eligibility.

When Administrator Bowles travelled to Los Angeles after the earthquake, he found that rental properties such as apartments had sustained heavy damage, and the rental market had been profoundly impacted. A substantial vacancy rate had been turned into a very tight rental market for low and moderate income families, and for small businesses. The traditional bar to eligibility of small businesses engaged in the renting of apartments or other properties was standing as a direct obstacle to meeting clear needs in the community. While SBA had authority to make physical disaster loans to these property owners, we were unable to help address their working capital shortfalls. Without alleviating these needs, repair of rental units would be delayed, and apartment occupants and small businesses leasing space would be subjected to a tight market with higher rents. As the basis for the exclusion of landlords from the 7(a) program does not necessarily apply to the EIDL program, Administrator Bowles has modified the regulations to permit small businesses engaged in property rental to qualify for economic injury disaster relief.

4. Modification of Major Source of Employment (MSE) Criteria. The Small Business Act authorizes the SBA to waive the statutory loan limit (now $1.5 million) for businesses which are major sources of employment (MSE). SBA has defined MSE criteria by regulation. Over the past decade and more, an average of about 1 MSE waiver has been approved annually. The regulatory criteria have been based on meeting any 1 of 3 tests, 1,000 employees or 10% of the industry in the disaster area or 10% of the workforce in the community. Last year, SBA tightened the criteria, especially to establish a minimum number of employees for firms qualifying for MSE waivers because they employ 10% or more of the workforce in their industry in the disaster area. The change adopted last year set thresholds of 50 employees for non-manufacturing firms and 150 employees for manufacturing firms. A related change adopted last year clarified that a firm could qualify as an MSE for a waiver if it employs 10% or more of the workforce in its commuting area, rather than of its community.

   Upon further reflection, consideration of actual businesses in need in Los Angeles, and analysis of economic data, the criteria have been modified to recognize as an MSE any firm employing 250 or more employees in the disaster area. This change more closely conforms to community perceptions of "major" employers in most communities, and recognizes that only about 0.67% of business establishments have that many employees. While it is not expected that these changes will apply to many business applicants, they should be of substantial benefit to the communities where a few larger loans will be possible.

5. Internal Revenue Service Providing Service to SBA On-Site. SBA's appreciation of the Internal Revenue Service (IRS) for their invaluable assistance after the Midwest flood was noted above. In Los Angeles, the IRS has established a unit with about a dozen staff and computers in SBA's main earthquake disaster office in Burbank to provide immediate service. By asking victims only for a simple IRS form, the burden on them is substantially reduced compared to obtaining and submitting copies of tax returns. With the IRS working side-by-side with the SBA disaster staff, delays have been avoided despite the very high volume of workload. This assistance from the IRS is instrumental SBA's ability to expedite processing.

SBA Partnership with the Federal Emergency Management Agency

In fulfilling our key disaster assistance role, SBA works in partnership with the Federal Emergency Management Agency (FEMA). FEMA is the federal coordinator in Presidentially declared disasters. Immediately after a disaster declaration by the President, FEMA establishes Disaster Application Centers (DACs) in disaster communities. DACs are one-stop centers where all involved federal, state, local and private disaster agencies are available. Victims first register with FEMA, and are then referred to the agencies and programs which best address their needs. SBA is an active participant in all DACs.

Additionally, FEMA seeks to register disaster victims by telephone. FEMA's primary tele-registration center is in Denton, Texas. During the Midwest floods and again after the Northridge earthquake, FEMA concentrated heavily on tele-registration. For the first time, after the Midwest floods SBA located staff at the registration center to take calls from victims referred to SBA for possible assistance. With FEMA's help, SBA disaster loan applications were mailed directly to victims who registered by telephone. After the Northridge earthquake, this teleregistration activity has been spread to 7 FEMA sites across the country, each staffed by SBA as well.

After SBA disaster loan applications are issued, many people need help to complete the application. To address this need, SBA establishes workshops throughout the disaster area. SBA staff and volunteers at the workshops assist victims to complete applications; they explain how to get missing information; answer questions; call victims who have not returned applications; attend local meetings to discuss available assistance from SBA, and take other proactive steps to ease access to assistance.

As applications are received and loans are approved, SBA workshops take on a new mission. Staff helps borrowers close loans and obtain disbursements, answering questions and initiating the inevitable changes to loan terms and conditions which arise from the dynamic and unpredictable course of disaster recovery.

The new leadership at FEMA, headed by Director James Lee Witt, has been working very hard to improve interagency coordination and communication. FEMA gave SBA substantial input into newsletters circulated in the Midwest flood area and invited SBA to participate regularly in a FEMA satellite broadcast in the Midwest. Once again, in the Northridge earthquake response, SBA and FEMA have worked closely together to deliver program assistance and to communicate clearly with the victims. At both the headquarters and field levels, SBA and FEMA have met regularly and cooperated to an unprecedented degree.

Although the programs administered by FEMA and SBA are very different, a close working relationship is important to the effective delivery of all forms of disaster assistance. At SBA, we are pleased with the direction Director Witt is taking to improve the delivery of disaster assistance.

In the Midwest floods, this tone of improved cooperation was established from the outset, when both the President and Vice President travelled several times to the flooded area in the Midwest. President Clinton's "Flood Summit" in St. Louis, with all affected states and all involved federal agencies, facilitated communication and encouraged partnerships to solve problems. The President designated Agriculture Secretary Espy to coordinate the federal role in the long term recovery. Under Secretary Espy's leadership, a variety of task forces have been meeting, coordinating and planning the next steps. SBA has been an active participant in those task forces affecting potential SBA disaster loan applicants. These interagency efforts contribute to improved program delivery and Secretary Espy's leadership is helping keep the focus on the reality that the Midwest flood recovery requires a commitment long after the story fades from the news.

In the response to the Northridge earthquake, both President Clinton and Vice President Gore have again been personally involved, travelling to the earthquake area, directing a swift and massive response, and encouraging different agencies and programs

to work together to deliver outstanding results. The foundation for a long-term, sustained effort to meet the Federal commitment to the rebuilding in Los Angeles is in place.

This concludes my formal remarks and I want to thank you Mr. Chairman and the members of this Committee for your continued support of small business and the SBA. I would be happy to answer any questions that you may have for me.

Table A:

SBA Disaster Loan Application Activity for Midwest Floods and Northridge Earthquake

	Midwest Floods (data through 2/27/94)	Northridge Earthquake (data through 2/27/94)
Disaster Loan Applications Issued	117,696	325,773
Disaster Loan Applications Received	33,634	69,257
Applications Verified (physical only)	28,251	24,966
(less applications withdrawn)	(1,360)	(186)
Processing Decisions Completed:	31,549	11,065
Loans approved	19,179	6,017
amount approved	$540.2 million	$185.3 million
Applications declined	12,370	4,862
Applications Pending:	725	49,735

Table B:

Primary Reasons for Low Rate of Loan Application Filing in the Midwest Floods

- Many victims had only minor damage, such as basement flooding, and decide they do not need federal help,
- A fiscally conservative population reluctant to incur debt,
- Victims with financial capability to fund the flood repairs without federal assistance,
- Indecision about whether to rebuild or repair, or whether to move, especially to a site out of a flood zone,
- Property owners exposed to more flooding until levees are rebuilt and unwilling to make repairs until the property is again protected by a levee,
- Businesses with economic injury often wait for the need to become clear before filing,
- Concern about the health of local economy, especially in agricultural areas,
- Some unknown number of victims obtained multiple applications, one by mail after registering by telephone with FEMA and another directly from SBA at a visit to a Disaster Application Center (DAC),
- A high proportion of elderly residents who are often reluctant to take out long term loans for which they are eligible,
- Hope that news reports about "buy-outs" will replace a need for a loan, and
- Victims who responded to press reports about grants, registered by telephone, and were not interested when referred for loan assistance.

Table C:

SBA Disaster Loan Approvals for Midwest Floods

(data through COB February 27, 1994

State	Total		Home		Business Physical		EIDL	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Illinois	5,657	$128,294,300	5,048	$ 95,682,200	463	$ 23,111,100	146	$ 9,501,000
Iowa	3,769	100,988,500	2,676	27,662,000	634	41,065,200	489	32,261,300
Kansas	1,193	28,285,700	939	14,145,700	154	8,484,000	100	5,656,000
Minnesota	1,092	22,990,600	888	10,010,800	110	4,579,900	94	8,399,900
Missouri	4,746	204,868,400	3,236	69,139,500	948	93,367,800	562	42,361,100
Nebraska	320	11,964,100	233	2,175,900	40	1,875,600	47	7,912,600
North Dakota	1,145	15,121,100	969	9,432,800	110	2,215,200	66	3,473,100
South Dakota	684	15,901,200	522	8,548,000	72	1,529,400	90	5,823,800
Wisconsin	573	11,775,000	443	5,872,800	82	3,017,100	48	2,885,100
TOTAL	19,179	540,188,900	14,924	242,669,700	2,613	179,245,300	1,642	118,273,900

Table D:

SBA Disaster Loan Average Size for Midwest Floods

(data through COB February 27, 1994)

State	Total	Home	Business Physical	EIDL
Illinois	22,679	18,954	49,916	65,075
Iowa	26,795	10,454	64,772	65,974
Kansas	23,710	15,065	55,091	56,560
Minnesota	21,054	11,273	41,635	89,361
Missouri	43,167	21,366	98,489	75,376
Nebraska	37,388	9,339	46,890	168,353
North Dakota	13,206	9,735	20,138	52,623
South Dakota	23,247	16,375	21,242	64,709
Wisconsin	20,550	13,257	36,794	60,106
Total for Midwest Floods	28,166	16,260	60,598	72,030
Comparison: FY 1993 National Total	28,530	20,231	51,653	48,254

Table E:

SBA Disaster Business Borrowers with Loan Approvals over $500,000
(for disasters commencing 4/1/93 or after)
(all data through February 24, 1994)

State	Number of Business Borrowers	Total Amount of Disaster Loans
Midwest Flood Disasters		
Illinois	11	$ 10,154,700
Iowa	26	21,212,300
Kansas	4	3,382,300
Kentucky*	3	2,306,600
Minnesota	7	4,776,500
Missouri	54	54,785,700
Nebraska	3	2,317,700
South Dakota	1	987,100
Other Disasters		
California,		
wildfires	4	2,849,400
earthquake	2	2,275,700
Guam	2	1,357,500
Louisiana	1	629,300
New York	2	2,015,500
Oregon	1	502,000
Virginia	1	609,300
TOTAL	122	$ 110,161,600

* economic injury disaster loans approved in counties contiguous to Illinois counties included
† Presidential flood declaration

Table F:

Peak SBA Staffing for Midwest Floods

Place	No. of SBA Disaster Employees
Illinois	57
Iowa	113
Minnesota	10
Missouri	93
Kansas	37
Nebraska	27
North Dakota	69
South Dakota	42
Wisconsin	9
Disaster Area 2, Atlanta, GA	129
Disaster Area 3, Ft. Worth, TX	195
Disaster Area 4, Sacramento, CA	118
TOTAL	899

SBA DISASTER BUSINESS LOAN APPLICATION

OMB No 3245-0017

U.S. Small Business Administration

NOTE: Physical Injury Filing Deadline | Economic Injury Filing Deadline

☐ Physical Injury ☐ Economic Injury

1. APPLICANT'S LEGAL NAME
2. TELEPHONE NUMBER (including area code)
3. TRADE NAME (if different from legal name)
4. FEDERAL EMPLOYER'S TAX I.D. NUMBER (if applicable)
5. MAILING ADDRESS — number, street, and/or P.O. Box No.; city; state; zip
6. DAMAGED PROPERTY ADDRESS — number, street, or rural route; city; county; state; zip
7. BUSINESS LOCATED ON ☐ Owned Property ☐ Leased Property
8. DATE BUSINESS ESTABLISHED:
9. ORGANIZATION TYPE ☐ sole proprietorship ☐ partnership ☐ limited partnership ☐ corporation ☐ nonprofit organization
10. AMOUNT OF LOAN REQUEST (if unknown enter a question mark) — PHYSICAL DAMAGE — ECONOMIC INJURY
11. UNDER CURRENT MGMT SINCE
12. MANAGEMENT — Complete for each proprietor, each limited partner who owns 20% or more interest and each general partner, or each stockholder owning 20% or more voting stock

Name	Title/Office	% Owned	Social Security No	(Area Code) Telephone Number	Race*	Sex*

* This data is collected for statistical purposes only. It has no bearing on the decision to approve or decline this loan application.

13. Are any of the above individuals (a) presently under indictment, on parole or probation, or have they ever been (b) charged with or arrested for any criminal offense other than a minor motor vehicle violation, or (c) convicted, placed on pretrial diversion, or placed on any form of probation including adjudication withheld pending probation for any criminal offense other than a minor motor vehicle violation? ☐ YES ☐ NO

14. I have not paid a representative (attorney, accountant, etc.) to assist me with this application except:

name and address of representative (please print) | fee charged or agreed upon

If anyone completes this application on your behalf, whether there is any charge or not, that person must sign in this space below.

signature of representative | date signed

Parts 103, 104, and 122 of Title 13 of the Code of Federal Regulations contain provisions covering appearances and compensation of persons representing SBA applicants. Section 103.13-5 authorizes the suspension or revocation of the priviledge of any such person to appear before SBA for charging a fee deemed unreasonable by SBA for the services actually performed, charging of unreasonable expenses, or violation of any applicable regulation. In addition, whoever commits any fraud, by false or misleading statement of representation, or by conspiracy, shall be subject to the penalty of any Federal or State statute.

If your application is approved, you may be eligible for additional funds to cover the cost of mitigating measures. It is not necessary for the description and cost estimates to be submitted with the application. SBA approval of the mitigating measures will be required before any loan increase. If you are interested in having SBA consider this increase, please check this box ☐

IF YOUR LOAN IS APPROVED, ADDITIONAL INFORMATION WILL BE REQUIRED PRIOR TO LOAN CLOSING. YOU WILL BE ADVISED IN WRITING WHAT DOCUMENTS WILL BE NEEDED TO OBTAIN YOUR FUNDS.

CONTINUE ON REVERSE SIDE

OTHER INFORMATION

15. The applicant or its owners have never been involved in bankruptcy or insolvency proceedings except	Provide dates and details
16. The applicant or its owners have no outstanding judgements, tax liens, or pending lawsuits against them except.	Provide dates and details
17. No owner, owner's spouse or household member work for SBA, Small Business Advisory Council, SCORE, ACE, or any other Federal Agency except	Provide names and organizations
18. Within the past 1 year, no owner with 20% or more interest or general partner has been convicted of a criminal offense committed during and in connection with a riot or civil disorder except	Provide dates and details
19. The Applicant or its owners have never had any Federal loans except.	Provide dates and details

FILING REQUIREMENTS (please submit)

20. Copies of the 3 most recent, complete Federal Income Tax Returns including all schedules. If these are not readily available, complete and sign the attached IRS Form 8821 to meet this requirement. If this is a new business that has not filed 3 Federal Tax Returns, submit the ones you have. SBA will contact you if any additional information is needed (i.e., forecasts, etc.)

21. A current (dated within 90 days of application) business balance sheet (SBA Form 413 may be used for sole proprietorships), a current profit and loss statement, and a current schedule of liabilities. (Sample format for schedule of liabilities attached for your convenience)

22. For each owner having a 20% or more interest and each general partner, a current (dated within 90 days of application) personal financial statement (SBA Form 413 may be used for this purpose) and a complete copy, including all schedules, of the most recent Federal Income Tax Return. If tax returns are not readily available, complete and sign the attached IRS Form 8821 to meet this requirement.

23. A complete copy, including all schedules, of the latest Federal Income Tax Return for any affiliate. Affiliates include business parents, subsidiaries or other businesses with common ownership or management. If these tax returns are not available, have an authorized individual complete and sign the attached IRS Form 8821 to meet this requirement.

24. If your application includes physical injury, complete and sign the attached SBA Form 739A, "Verification of Business Disaster Loss."

25. If your insurance covers this loss (regardless of the current status of your claim), please provide the name and telephone number of your agent and or claims adjuster.

26. If your application includes economic injury please submit the attached SBA Form 1368, "Additional Filing Requirements - Economic Injury Disaster Loan (EIDL)."

AUTHORIZATIONS

Unless I check this box, I authorize my insurance company to release to SBA all records and information pertaining to losses caused by this disaster

☐ NO

Unless I check this box, you have my permission, to release information to other local, private, or State disaster relief services

☐ NO

AGREEMENTS AND CERTIFICATIONS

APPLICANT CERTIFIES AND AGREES THAT

Applicant agrees that SBA may release information contained in this application to other Federal agencies for disaster related purposes.

No Person shall, on grounds of age, color, handicap, marital status, national origin, race, religion or sex, be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under any program or activity for which applicant receives Federal financial assistance from SBA.

Applicant will report to the SBA Office of the Inspector General, Washington, D.C. 20416, any Federal employee who offers, in return for compensation of any kind, to help get this loan approved. Applicant has not paid anyone connected with the Federal government for help in getting this loan.

All information in this application is true and complete to the best of my knowledge. All financial statements submitted with the application fully and accurately present the financial position of the business. No disclosures have been omitted in these financial statements. This certification also applies to any financial statements submitted subsequent to this date. Applicant understands that false statements may result in the forfeiture of benefits and possible prosecution by the U.S. Attorney General (reference 18 U.S.C. 1001 and/or 15 U.S.C. 645).

SIGNATURE ______________________ TITLE ______________ DATE __________

NOTE: PLEASE READ, DETACH AND RETAIN FOR YOUR RECORDS

STATEMENTS REQUIRED BY LAWS AND EXECUTIVE ORDERS

Federal executive agencies, including the Small Business Administration (SBA), are required to withhold or limit financial assistance and to provide special notices to applicants in order to comply with legislation passed by the Congress and Executive Orders issued by the President. SBA has issued regulations implementing these laws and executive orders and they are contained in Parts 112, 113 and 116, Title 13, Code of Federal Regulations (CFR), Chapter I, or Standard Operating Procedures (SOP's). This form contains a brief summary of the various laws and executive orders that affect SBA's disaster loan program and gives applicants the notices required by law or otherwise.

Right to Financial Privacy Act of 1978
(12 U.S.C. 3401)

This is notice to you, as required by the Right to Financial Privacy act of 1978, of SBA's access rights to financial records held by financial institutions that are or have been doing business with you or your business, including a financial institution participating in a loan or loan guaranty. The law provides that SBA shall have a right of access to your financial records in connection with its consideration or administration of assistance to you in the form of a Government loan or loan guaranty agreement. SBA is required to provide a certificate of its compliance with the Act to a financial institution in connection with its first request for access to your financial records, after which no further certification is required for subsequent access. The law also provides that SBA's access rights continue for the term of any approved loan or loan guaranty. No further notice to you of SBA's access rights is required during the term of such agreement. The law also authorizes SBA to transfer to another Government authority any financial records included in an application for a loan, or concerning an approved loan or loan guaranty, as necessary to process, service or foreclose a loan or loan guaranty or to collect on a defaulted loan or loan guaranty. No further transfer of your financial records to another Government authority will be permitted by SBA except as required by or permitted by law.

Freedom of Information Act
(5 U.S.C. 552a)

This law provides, with some exceptions, that SBA must supply information reflected in Agency files and records to a person requesting it. Information about approved loans that will be automatically released includes, among other things, statistics on our loan programs (individual borrowers are not identified in the statistics) and other information such as the names of the borrowers (and their officers, directors, stockholders or partners), the collateral pledged to secure the loan, the amount of the loan, its purpose in general terms and the maturity. Proprietary data on a borrower would not routinely be made available to third parties. All requests under this Act are to be addressed to the appropriate SBA office and be identified as a Freedom of Information request. Any person concerned with requesting information under the Freedom of Information Act may contact the Director, Freedom of Information Privacy Acts Division, Small Business Administration, Washington, DC 20416, for more information about the Agency's procedures.

Occupational Safety and Health Act
(15 U.S.C. 651 et seq.)

This legislation authorizes the Occupational Safety and Health Administration in the Department of Labor to require businesses to modify facilities and procedures to protect employees or pay penalty fees. In some instances the business can be forced to cease operations or be prevented from starting operations in a new facility. Therefore, in some instances, SBA may require additional information from an applicant to determine whether the business will be in compliance with OSHA regulations and allowed to operate its facility after the loan is approved or disbursed. All borrowers must certify to SBA that OSHA requirements that apply to the borrower's business have been determined and that the borrower is, to the best of its knowledge, in compliance.

Debt Collection Act of 1982 and Deficit Reduction Act of 1984
(31 U.S.C. 3701 et seq. and other titles)

These laws require SBA to aggressively collect any loan payments which become delinquent SBA must obtain your taxpayer identification number when you apply for a loan If you receive a loan and do not make payments when they become due, SBA may take one or more of the following actions

- Report the delinquency to credit bureaus
- Offset your income tax refunds or other amounts due you from the Federal Government
- Refer the account to a private collection agency
- Suspend or disbar the firm from doing business with the Federal Government
- Refer your loan to the Department of Justice
- Foreclose on collateral or take other actions permitted in the loan instruments

Policy Concerning Representatives and Their Fees

An applicant for a loan from SBA may obtain the assistance of any attorney, accountant, engineer, appraiser or other representative to aid in the preparation and presentation of the application to SBA, however, such representation is not mandatory In the event a loan is approved, the services of an attorney may be necessary to assist in the preparation of closing documents, title abstracts, etc SBA will allow the payment of reasonable fees or other compensation for services performed by such representatives on behalf of the applicant

There are no "authorized representatives" of SBA, other than our regular salaried employees Payment of any fee or gratuity to SBA employees is illegal and will subject the parties to such a transaction to prosecution

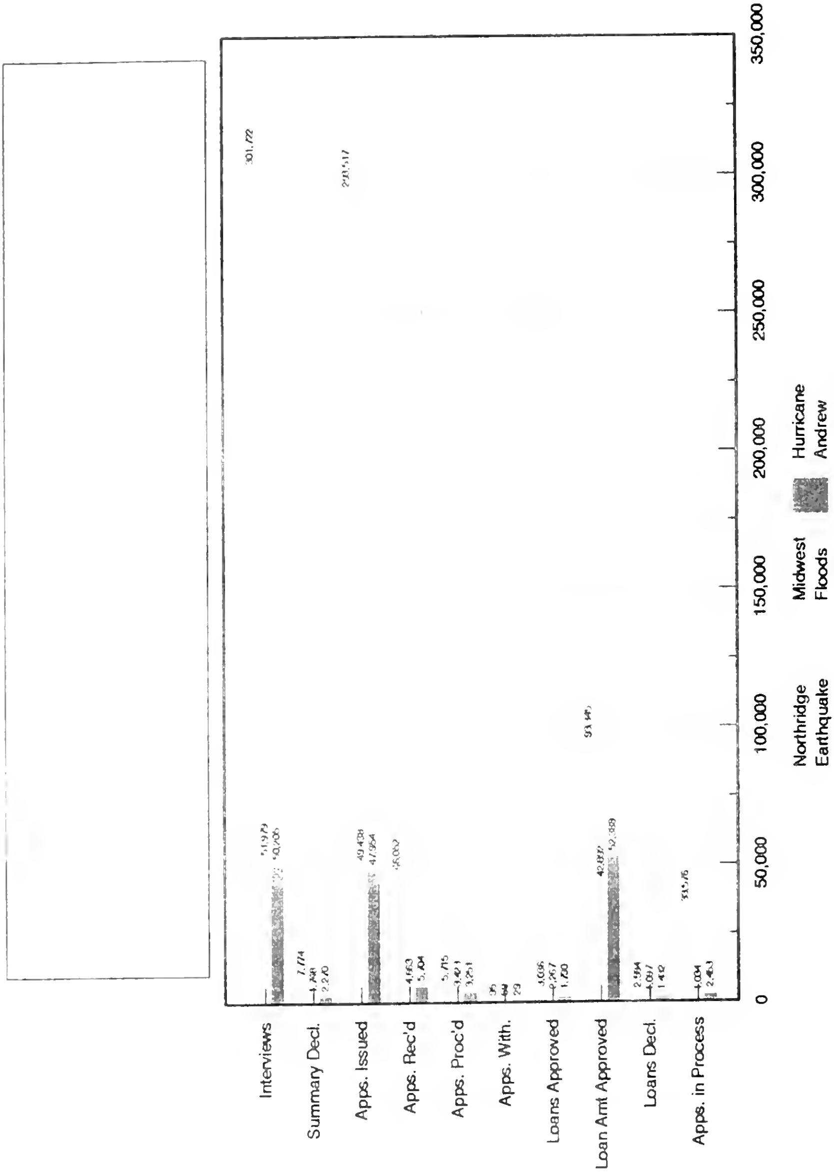
SBA Regulations (Part 103, Sec 103 13-5(c)) prohibit representatives from charging or proposing to charge any contingent fee for services performed in connection with an SBA loan unless the amount of such fee bears a necessary and reasonable relationship to the services actually performed, or to charge for any expenses which are not deemed by SBA to have been necessary in connection with the application The Regulations (Part 120, Sec 120 104-2) also prohibit the payment of any bonus, brokerage fee or commission in connection with SBA loans

In line with these Regulations, SBA will not approve placement or finder's fees for the use or attempted use of influence in obtaining or trying to obtain an SBA loan, or fees based solely upon a percentage of the approved loan or any part thereof

Fees which will be approved will be limited to reasonable sums of services actually rendered in connection with the application or the closing, based upon the time and effort required, the qualifications of the representative and the nature and extent of the services rendered by such representatives Representatives of the loan applicants will be required to execute an agreement as to their compensation for services rendered in connection with said loan

It is the responsibility of the applicant to set forth in the appropriate section of the application the names of all persons engaged by or on behalf of the applicant Applicants are required to advise the SBA disaster office in writing the names and fees of any representative engaged by the applicant subsequent to the filing of the application This reporting requirement is approved under OMB Approval Number 2345-0016

Any loan applicant having any question concerning the payments of fees, or the reasonableness of fees, should communicate with the Field Office where the application is filed


Interviews
Summary Decl.
Apps. Issued
Apps. Rec'd
Apps. Proc'd
Apps. With.
Loans Approved
Loan Amt Approved
Loans Decl.
Apps. in Process
0
50,000
100,000
150,000
200,000
250,000
300,000
350,000
Northridge Earthquake
Midwest Floods
Hurricane Andrew

The CHAIRMAN. I cannot think of a question after that statement.

[Laughter.]

Ms. PULLEY. Good.

The CHAIRMAN. I want to defer to my colleague, Senator Wellstone, who has a very important engagement he needs to get to. He has faithfully promised not to go more than 5 minutes.

OPENING STATEMENT OF HON. PAUL DAVID WELLSTONE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator WELLSTONE. Thank you very much, Mr. Chairman. I do apologize. I was a former teacher and we have Secretary Riley coming today to talk to the Labor Committee about ESEA and there are a number of questions that I want to put to him.

I want, first of all, to say to you, Ms. Pulley, and to Mr. Cox and Mr. Kulik, that I have expressed myself fully in support of both the 7(a) and the Small Business Disaster Loan Programs. I was one of a number in the Senate who co-sponsored the effort to raise the upper limits on the small business disaster assistance loans, and that has been done.

I said to the Chairman as you were testifying, that, coming from Minnesota which was hit very hard by last year's disaster, I have not heard one complaint about the work you all have been doing. It has been unbelievable. I really feel very good about the agency. I said this to the Administrator when he was here. I think he made a commitment to rejuvenate SBA and to bring in some leadership, and I am really pleased with the direction that it has taken. I thank you for your fine work.

[The prepared statement of Senator Wellstone follows:]

PREPARED STATEMENT OF SENATOR PAUL D. WELLSTONE

Thank you, Mr. Chairman. And thank you for being here, Deputy Administrator Pulley.

My statement will be very brief. I have expressed myself fully on the record in support of both the 7(a) and small-business disaster loan programs in the past. I am very hopeful that changes we were able to make in the 7(a) program last year will enable more small businesses to be served without substantially increasing the program's budget. I look forward to the witnesses' testimony on that topic.

As for SBA's disaster-loan program, I would like to say that the devastating floods that visited my state last year, which ravaged many small towns and businesses, did create a significant demand for small business assistance. I appreciate that the Administration supported the request that a number of us from the afflicted region made to raise the upper limits of those disaster loans, and I will be eager to hear some report on the effects, if known, of that change. I am pleased to report that my offices received almost no complaints as far as I know regarding the operation of that disaster loan program.

I intend to ask the Deputy Assistant a few questions regarding a legislative idea following her testimony. But I think it is worth repeating for the record a sentiment that was expressed in our hearing here last week when we had the Administrator before us.

This Administration is showing its commitment to promoting and assisting small business in America. The team that Administrator Bowles has been assembling at SBA shows signs of invigorating that agency's career professional staff and already has generated some exciting new ideas. I mentioned to the Administrator last week my hope that the "Low-Doc, No-Doc" pilot program is tried in Minnesota sometime soon. I also look forward to learning more about some of the other ideas, several of them new pilot programs, that Ms. Pulley and the other witnesses will comment on today.

Senator WELLSTONE. I have two questions. Our office has been doing some work with you on the first item, and I know, Mr. Cox, you have been very helpful.

Under a current SBA pilot program called the Accredited Lender Program or ALP, about 30 of the SBA Certified Development Companies, CDCs, not community development corporations but CDCs, are receiving expedited processing of their 504 Loan Guaranty Applications. (A) Can you briefly explain how the pilot works and your evaluation of it?

And (B), do you see any reason not to expand that program beyond the pilot status and give SBA district offices throughout the country the opportunity to offer expedited processing to all qualifying CDCs? In other words, along the theme of reducing the paperwork and getting the turnaround time down, without putting taxpayer dollars unduly at risk, I wonder whether you see us going in that direction, because we are very interested in this.

Ms. PULLEY. Senator, first of all, I would like to thank you for your comments about SBA's performance. And I would also like to especially mention my colleague, Mr. Kulik, who has been unfailing in his efforts in the disaster program.

Senator WELLSTONE. Thank you, Mr. Kulik. Coming from one of those states that is hard hit, thank you.

Ms. PULLEY. The Accredited Lender Program is a pilot program that we have been operating for some time. There are 30 CDCs in the program, which is a little under 10 percent of our total portfolio of CDCs. It has been an interesting program. We operate it based on our Certified Lenders Program, which attempts to provide expedited processing of CDC applications.

We use some basic factors in determining which CDCs would be eligible. One is the volume of loans the CDC processed; two, the experience level of the staff; three, the currency rate of their portfolio. Our experience in operating that program has proven to be very successful.

However, there were some reports that some of the district directors were a little hesitant to delegate that much responsibility. We have attempted to correct some of those issues.

We have found in general that the program has been one that has gone very well. And I think our general response would be to try to expand it. We are, in fact, in the process of drafting regulations to move it out of the pilot stage and implement it nationwide. It is part of our overall effort to empower our district directors, therefore, we expect to move forward with it.

Senator WELLSTONE. Well, good.

Mr. Chairman, in one of the Subcommittee hearings I chaired last year, Terry Stone, director of Region 9 Development Commission in Mankato, Minnesota pushed hard on this. That is when it first came before the Subcommittee, and then we noticed this pilot project. I want to work with you to make sure this happens, because I think it is consistent with what we all are trying to do. It has already proven itself, and I think there is a real desire out there to see it expand.

The second question, my final one, is this: the certified and preferred lender provisions of the 7(a) program seem to be working very well. But, in many areas,—and this, goes to the Subcommittee

that I chair—especially rural areas, there are few or no such certified or preferred lenders. This is the problem that I identify.

Is there a way to try out a program of selecting some development organizations who can package the 7(a) loans and who meet the strict performance requirements for expedited processing from the SBA's district offices? And could it be targeted especially to those areas where there is a lack of certified bank lenders right now, which is one of the problems we see, perhaps targeted specifically, to rural areas?

Then my last point is whether or not targeting to rural areas has some precedent in SBA policy.

Ms. PULLEY. Yes, Senator, there is some precedent for targeting rural areas. And I would like to say personally that I appreciate your interest, having grown up in a rural area myself. I am glad to see someone is looking out for our interests.

It is a program that we are considering very much. Part of our initiative in this administration is to focus on those areas that are most underserved, which include poor rural areas, inner cities and distressed environments. So we are actively pursuing ways to target rural areas for increasing SBA activities. And I think some sort of PLP or CLP Program would be a good idea. As we move forward, we will be able to get back to you with more details.

Senator WELLSTONE. That would be great. Well, I thank you.

I look forward to working with you legislatively and within the Committee. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Wellstone.

Ms. Pulley, just to follow up on what Senator Wellstone has been discussing, on these one-stop capital markets, these ten regional areas, it is really imperative that if we go into that we not forget the rural areas of America.

Now you may or may not know of mine and the President's work and Senator Pryor and a whole group us who have worked for years to try to bring some economic relief for the delta areas, principally Louisiana, Mississippi and Arkansas. Arkansas is essentially two states where it is mountainous and, once you go east of Little Rock, you know, you can see a crow for 20 miles. And that is where agriculture got in big troubles in the 1980's, and we still have not recovered from it. We have a high African-American population in those areas, and it is imperative that these programs be made available. The loan demand won't be great, but it certainly needs to be accessible.

Now, in that connection, let me just get to something that's really bothering me, and that is this proposal to increase interest rates on fixed-rate loans or fixed-term loans. And, as I understand it, this proposal would increase the rate by 1 percent actually above the existing amount. What is it, 2.25 percent above prime now?

Ms. PULLEY. Right.

The CHAIRMAN. And this proposal for 7 years or less would increase that by 1 percent and, over that, by 1.25 percent. I have real problems with that, Ms. Pulley. Have you seen the letter I wrote to the Administrator on this?

Ms. PULLEY. Yes, sir.

The CHAIRMAN. And we are still in a comment period on that I guess.

Ms. PULLEY. Right.

The CHAIRMAN. Let me just go back a moment. Do you see any diminution in demand for credit under the 7(a) program, for example, or in the secondary market as a result of the changes we made last year? The chart would not indicate it.

Ms. PULLEY. No. Senator, I think that we expect our demand to increase. We are seeing right now the sort of—loan demand which is very cyclical, and we are seeing the bottom of the cycle right now in the winter months, particularly given the bad weather this year. But we expect over the second half of Fiscal Year 1994 an increase of 10 percent in loan demand.

So I think what we are seeing is a change on the part of lenders as to how they use SBA guaranties, but certainly I do not think that those changes will diminish demand for the 7(a) loan program at all.

The CHAIRMAN. Well, then, why this proposal?

Ms. PULLEY. Primarily to increase the number of options available to small businesses in looking at their loans. That is why we have the different initiatives, the GreenLine, which will come up with a real working capital line of credit as opposed to trying to make a term loan—a working capital loan which does not serve anybody well.

I think that the fixed interest rate proposal is an attempt to give small businesses who are doing longer-term borrowing the option of locking in while interest rates are low. Interest rates have been, for the past year or so, at an all-time low. And, while one percentage point over the variable rate seems to be high, if you are looking at a 10-year or 15-year loan and you have the option of locking it in at 8 or 9 percent, that is really a very good rate because small businesses, of course, are most often impacted more severely when interest rates are very high. So that is really what we are doing. We are not, again, going to require a certain percentage.

So your comments are certainly well taken and understood, and we would like to discuss it with you further. What we really are doing is trying to respond to the needs of our constituents and the requests of our partners.

The CHAIRMAN. Ms. Pulley, if these loans were not guaranteed, I probably would not even raise the question.

Ms. PULLEY. Yes.

The CHAIRMAN. But, you know, that is almost a bird's nest on the ground when you get a federal guaranty on some of these loans. I can borrow whatever amount I want to borrow in Little Rock, Arkansas, today on a home for 30 years for 7.25 percent. Now, that collateral is really what they are interested in. They are not interested in me as a borrower, or they might be happy to make me a loan because they know I make $135,000 a year. But they are looking at that house and its appraised value and what it is likely to be worth. They know that loan is secure for all intents and purposes for the 30-year period because of the value of the collateral.

But here, you only dampen that proposition slightly by the amount of the risk that the bank assumes as opposed to the guaranty. So I just have a real problem with this.

Unless there is some diminution of interest by the banks in making these loans, I find that the interest of banks has gone up exponentially in the last 3 years in making SBA loans.

And let me just say, on a slightly different note, you know SBA's mission is unique, and I want it to remain unique. We are not in the business of loaning very small business persons in the country money just because we champion small business. We are interested in making loans to people who find themselves in a credit crunch always, who have good ideas, who are creditworthy, whose integrity is unquestioned, but who simply normally cannot get a bank loan. Now, if we are just going to allow people to go the bank and the banks say, "Well, you know, I would love to make this loan, but why not go to SBA and we will make it a little faster ..." It is not strictly a credit elsewhere test.

But still I have a feeling, when you look at the exponential demand for 7(a) loans, that is what is happening, and the default rate would indicate that we are making good loans. We are probably making a lot of good loans to people that are quite capable of getting a business loan at the bank and paying it off. I do think you are doing a fine job. I want to echo what Senator Wellstone said. I am so gratified to have a man of Erskine Bowles' talents and integrity running this agency. And I do not mean to denigrate the former administrators, but it was a revolving door for everybody that ran for the Senate and got beat. And now we have got a man who understands venture capital, who is creative and starting all these pilot programs now.

I will issue one additional word caution on that. I believe in every one of those. I think they are excellent. I think the Low Doc Program, the GreenLine Program, those programs are all wonderful. You perhaps heard me say in the hearing the other day, some woman caught me on the streets of San Antonio. I was just walking on the street and she stopped me. She worked for the SBA, and she said, "Oh, Senator Bumpers, we have got this Low Doc Program going here." And she was just fascinated by it and very complimentary and so on.

And revolving credit is something every businessman needs. He needs to know if he gets in a slight cash flow crunch that he has got a little excess that he can pull on. But I do not want to get more, as we say in Arkansas, "more poured out than we can smooth over." So, while I applaud the initiatives that the Administrator is taking in these cases, I want to proceed with some caution.

Now, staff has just handed me a note to indicate that if these interest rate proposals went into effect for loans of over 7 years, the rate would be 10 percent. I consider that, in today's market, unconscionable. I mean there was a time when 10 percent was not all that big a deal, but today it is. So we are going to have to look at that very closely.

Ms. PULLEY. Yes, sir.

The CHAIRMAN. I had a feeling in the back of my mind that we may be trying to compensate the banks for what we did last year,

took a little of the gravy away. You know, bankers are my friends. I try to accommodate them. I had all the Arkansas bankers in my office last week. They had some legitimate complaints, and I try to help them. And, naturally, they would like this. But I am troubled by it.

I am going to be jumping back and forth on this. Let me first ask you a question on behalf of Senator Feinstein. She wants to know what SBA is doing or planning to do with regard to defense conversion. Are you familiar with the bill she has introduced?

Ms. PULLEY. Yes, sir.

The CHAIRMAN. I take it that Mr. Bowles had no objection to that bill as long as the money comes from the Defense Department and not from the 7(a) loan program that we authorized.

Ms. PULLEY. And that it includes money for salaries and expenses. We really have a considerable amount on our plates right now, and without additional staff and authority to pay for it we really cannot undertake any more initiatives.

The CHAIRMAN. Well, Senator Feinstein is very tenacious. I would not co-sponsor that for a long time until she got a commitment from the Defense Appropriations Subcommittee Chairman that it would be agreeable with him to take the funding out of the defense conversion money that they have in the Defense Department.

Ms. PULLEY. Yes, sir.

The CHAIRMAN. And I co-sponsored it after that, but I did not want to co-sponsor it if we were going to diminish our own 7(a) loan program to that extent.

Ms. PULLEY. Yes, sir.

The CHAIRMAN. Obviously, we do not have that much subsidy in our appropriations bill to take $100 million bucks and put it in a new defense conversion program.

Ms. PULLEY. Yes, sir.

The CHAIRMAN. And, as you perhaps know, I was not enthusiastic about Senator Harkins' amendment last year to raise the disaster loan rates for businesses and farmers from $500,000 to $1.5 million. Can you tell me how many loans we have made in the Midwest that exceeded $500,000?

Ms. PULLEY. Yes, sir.

The CHAIRMAN. And the number of loans and the amount of money.

Ms. PULLEY. Yes, sir. In the Midwest, we have made 109 loans. And the total amount is, it looks like, a little over $100 million.

The CHAIRMAN. How many are over $1 million?

Ms. PULLEY. If I could get back to you on that, I will provide it for the record.

The CHAIRMAN. Okay; you have 109 over $500,000. If you will supply for the record and to me personally the number of loans over $1 million, that would be helpful.

Ms. PULLEY. Yes, sir. We will give you a detailed breakdown, Senator.

The CHAIRMAN. Now, you stated in your testimony about this women's program in Chicago, and I want to know how are you formulating this pre-qualification list. You stated in your testimony that it is an effort on your part to compile a list of women, I

assume, in advance of their asking for money. I thought you called it a pre-qualification list.

Ms. PULLEY. Pre-qualification. Essentially, what we would do is, for women-owned businesses who are having difficulty obtaining financing, SBA would work with the business owner to ensure that the criteria, the borrowing criteria, the credit history, the ownership, the company's business, would meet SBA's criteria if a loan was requested. And we would give a letter of pre-qualification, if you will, for the owner to then take to the bank, which would, we hope, eliminate some of the turn downs that women business owners are presently experiencing.

The CHAIRMAN. Well, I applaud your efforts in that area.

But I just wondered who was going to get on the list.

Ms. PULLEY. Any women business owner who comes in.

The CHAIRMAN. Anyone who wants it?

Ms. PULLEY. Right.

The CHAIRMAN. Well, are you doing some kind of an outreach program to advertise this program?

Ms. PULLEY. Yes. We are working in conjunction with our demonstration projects. And one of the reasons we are using Chicago as our initial starting point is because we have one of our more successful demonstration projects in that city. They have worked considerably with women-owned businesses to provide them with technical and managerial assistance. So what we will be doing is working with them with our district offices to pre-screen and pre-qualify women borrowers.

The CHAIRMAN. I noticed in this last chart, at least in my briefing book, the beautifully colored chart about the disaster comparative statistics. I was, frankly, a little troubled about having 2,300 employees in California. And it is quite obvious to me that, in a sense, we have too many people. But when I look at 301,000 interviews and 290,000 applications issued, you've actually received 46,000 applications. For the amount of money you are putting out, you have an inordinate number of employees. But for the amount of paperwork you are being burdened with by people who are applying, it does not look so bad.

And it seems apparent to me that you are probably, in San Francisco, you are probably going to make—Well, based on your previous experience, you probably will not make more than 2 or 3 percent of the loans based on interviews you have had, and you probably will not make more than 10 percent of the loans of the people who submit applications. Is that a fair statement? No? Give me the right statistics then.

Mr. KULIK. On average, sir, we approve approximately 65 percent of all applications filed.

The CHAIRMAN. 65 percent?

Mr. KULIK. Yes, 65 percent of all applications filed.

The CHAIRMAN. Well, now, so far, you have received 46,000 applications in San Francisco.

Mr. KULIK. Los Angeles, sir.

The CHAIRMAN. I am sorry. I meant Los Angeles.

Mr. KULIK. I believe the chart you are looking at was based on a 1-month comparison. That number increases by about 3,000 a day, so we are now over 70,000 applications.

The CHAIRMAN. Received?

Mr. KULIK. Yes, received.

The CHAIRMAN. How many have you issued so far? How many loans have you made so far?

Mr. KULIK. We have made over 7,000 loans for over $215 million, and that approval rate is going up at about $15 million a day.

The CHAIRMAN. How long will it be before we know what the final statistics are on that?

Mr. KULIK. A year probably. We will have a pretty good idea within 6 months. But, before we end up finally, it will be a year.

The CHAIRMAN. Now, you have received how many applications?

Mr. KULIK. So far, we have received over 70,000 applications.

The CHAIRMAN. And you expect to make 65 percent of those?

Mr. KULIK. That has been the national average; yes.

The CHAIRMAN. That is really surprising. I am amazed at that.

Mr. KULIK. The numbers are incredible.

The CHAIRMAN. Well, I withdraw my comment about the number of people you have out there, then, because I thought you had a lot of people out there doing interviews and looking over applications that were going to go into the scrap heap.

Mr. KULIK. Well, at first, the vast number of people are manning what are called the Disaster Application Centers, the DACs. There were, I believe, over 29 of those at one time in this disaster. And SBA has to have at least 8 to 9 employees, or 8 to 15 employees, in each one. The main burden of our function there is the interviews, explaining our application process, and encouraging people to get their applications in as soon as possible.

As this goes on, of course, people return the applications. They are being screened. Then we have verifiers on site in Los Angeles who do the actual determination of damage, cost of repair. And our processors and loan closing is in Sacramento.

The CHAIRMAN. You do not show the comparison between business and residential loans here; do you?

Mr. KULIK. No, sir. These are just total loans.

The CHAIRMAN. Pardon?

Mr. KULIK. These are just total loans.

The CHAIRMAN. Do you know what the ratio is?

Mr. KULIK. The ratio usually, again, on a national average, has been about 75 to 80 percent home loans in numbers, but about 45 to 50 percent home loans in dollars. Obviously, the business loans are the larger average loans.

The CHAIRMAN. And what is your maximum home loan?

Mr. KULIK. The maximum home loan now is $200,000 for real estate, $40,000 for personal property.

The CHAIRMAN. Okay.

Mr. KULIK. Senator, if I may respond to a previous question?

The CHAIRMAN. Certainly.

Mr. KULIK. Of the loans of over $500,000, there were 122 total; 37 of those were over $1 million. And we will supply you with a state-by-state breakdown of where those loans are.

The CHAIRMAN. Fine. I am going to appreciate that very much. That is good information.

[The information referred to follows:]

SBA Disaster Business Borrowers with Loan Approvals over $500,000 (Old Statutory Loan Limit)
(for disasters commencing 4/1/93 or after, and subject to the new statutory loan limit of $1,500,000)
(all data through February 24, 1994)

State	Number of Business Borrowers Loans over $500,000 and up to $1,500,000	Total Amount of Disaster Loans over $500,000 and up to $1,500,000	Number of Business Borrowers Loans over $1,000,000 and up to $1,500,000	Total Amount of Disaster Loans over $1,000,000 and up to $1,500,000
Midwest Flood Disasters				
Illinois	11	$ 10,154,700	4	$ 5,164,100
Iowa	26	21,212,300	6	7,438,600
Kansas	4	3,382,300	1	1,334,600
Kentucky*	3	2,306,600		
Minnesota	7	4,776,500		
Missouri	54	54,785,700	23	31,861,800
Nebraska	3	2,317,700	1	1,258,700
South Dakota	1	987,100		
Other Disasters				
California,				
wildfires	4	2,849,400		
earthquake	2	2,275,700	1	1,500,000
Guam	2	1,357,500		
Louisiana	1	629,300		
New York	2	2,015,500	1	1,500,000
Oregon	1	502,000		
Virginia	1	609,300		
TOTAL	122	$ 110,161,600	37	$ 50,057,800

* *economic injury disaster loans approved in counties contiguous to Illinois counties included in Presidential flood declaration*

The CHAIRMAN. Ms. Pulley, these empowerment zones.

Ms. PULLEY. Yes, sir.

The CHAIRMAN. The loans that we would make in those areas are calculated to be riskier; are they not?

Ms. PULLEY. Yes, sir, we expect they will be.

The CHAIRMAN. Do you have an estimate as to how much more they will cost?

Ms. PULLEY. We have, Mr. Chairman, included the higher subsidy rate and blended it into our overall subsidy rate. As a percentage of SBA's total authority they really will not be a huge percentage. So they increased only slightly the subsidy rates for the overall programs, mostly in the 7(a) Program and in the SSBIC Program. The SBIC and SSBIC Program is where we saw the most difference.

The CHAIRMAN. Let me reemphasize, while I am on that, for the record and for the benefit of the Administrator who is not here this morning, and that is that there are seven states in what we call the delta caucus. There are seven states in that Delta Commission. And I strongly recommend that you and Administrator Bowles read that Delta Commission Report. It cost $2 million to put that commission together. They studied this whole area. There are about 255 counties from the southern tip of Illinois down across Missouri, Arkansas, Louisiana, Mississippi, Tennessee and I guess a couple of counties in Kentucky. It certainly would not be inappropriate for the most legitimate, non-political means to have one of these serving that area.

Ms. PULLEY. Mr. Chairman, if I may respond briefly. On the enterprise zones, there are nine planned in the initial round. Six will be in urban areas and three are to be in rural areas. SBA has been involved in providing training all around the country for the technical aspects of the empowerment zones, particularly the One Stop Capital Shops, because it is a bid process for the zones, and they will be responding to RFPs which are being managed by Secretary Cisneros and Secretary Espy. Administrator Bowles is one of the members of the enterprise boards, but ultimately the decisions will be made by the Secretaries as to where the zones are located.

The CHAIRMAN. Well, I will make my feelings known to him, also.

Ms. PULLEY. Good. Thank you.

The CHAIRMAN. As a matter of fact, I have a call from him for something else. I will wait and see what he wants, and then we will talk about what I want.

[Laughter.]

Ms. PULLEY. One of the training sessions in the delta area was in Greenville, Mississippi. I believe it was about 3 weeks ago.

The CHAIRMAN. Would you be interested in knowing what the poverty rate in those 255 counties is? 40 percent. That includes Tunika County, which is beginning to show some economic development because it is becoming a Las Vegas east of the Mississippi. I do not know; I have always been pretty hotly opposed to all forms of gambling, particularly the lottery. The other night, I was in a community over in east Arkansas and I stopped at a 7–11 to get a Coke or something before I went to this Chamber of Commerce banquet. I created a little stir by being in there. It was crowded,

and this guy says, "Oh, I have got a bunch people out in my van. They would just go crazy if you would go out there and say hello to them." So I did. And do you know where that carload of people from Little Rock, Arkansas were headed? Tunika. So I guess I do not want to raise the alarm too much, but I can tell you those casinos in Mississippi are draining an awful lot of money out of my state, and this is really troubling to me.

I have three or four other questions I will probably submit in writing, Ms. Pulley. But let me just ask you one additional question. That is, what is it that a small business person needs from SBA to export? Now, you have this innovative Export Assistance Program.

Ms. PULLEY. ERLC; right.

The CHAIRMAN. And my question is this: If I were making widgets and I had a chance to sell those widgets abroad, why would I come to the SBA? Why would I not just sell them? You can get an export license. I have helped a lot of people in Arkansas get export licenses. There is absolutely no trick to that. That is even less red tape than your Low Doc program.

Ms. PULLEY. Right. Generally, because this is small business, if your physical assets, the plant and equipment, are already collateralized, you have got some sort of mortgage financing. What the lender would want is the product as collateral. However, many lenders are hesitant to take collateral in widgets that are going in a foreign market.

What SBA will be doing with the revised ERLC, which we are harmonizing with Eximbank, is making working capital available to small businesses who want to export, and whose banks are hesitant to take either the receivable as collateral or an asset that is going overseas as collateral.

Also, one of the other issues is, for a number of companies who have to produce a product for export, the working capital required to do that may not be available because they are using their existing credit lines for the day-to-day operation of their business.

The CHAIRMAN. My sister was on the board of the Eximbank for many years. She was a member of the other political party; I had nothing to do with getting her put on that board.

But she was supposed to be a small business representative on that board, and she constantly lamented the fact that Boeing and General Electric and some of the biggest corporations in America are the biggest beneficiaries of assistance from the Eximbank. And I suspect that is still the case.

Ms. PULLEY. That is right.

The CHAIRMAN. So, when I raised this question, I raised it really because I am curious about it, because I think that the small business community in this country collectively could do something to help our trade imbalance.

Ms. PULLEY. That is right.

The CHAIRMAN. If they got the right kind of assistance and information. For awhile, I held an export awareness program in my home state once a year, just so small business could come in and let us tell them how easy it is to export if you really want to do it. But I have not done that lately. And I do not know; I wish I had commerce figures on the size of the companies and how much they

export in this country. I am sure I can probably get that, and I am going to try.

Ms. Pulley, thank you very much for your testimony this morning. It all sounds in order. And, as I said, we will probably have a couple of questions we will submit to you in writing. Thank you, Mr. Cox and Mr. Kulik, for being with us this morning.

Ms. PULLEY. Thank you very much, Mr. Chairman.

[The written questions and responses referred to above follow:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MAY 19 1994

Honorable Dale Bumpers
Chairman
Committee on Small Business
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Please find enclosed the responses from Deputy Administrator Cassandra Pulley to the additional questions submitted to her in conjunction with the Committee's March 2 hearing on SBA's 7(a) Guaranteed Business Loan and Disaster Assistance programs.

I hope this information is of assistance you and the Small Business Committee.

Sincerely,

Kris Swedin

Kris Swedin
Assistant Administrator
for Congressional and
Legislative Affairs

Enclosure

Additional Questions for the Record
to
Cassandra Pulley

Deputy Administrator
U.S. Small Business Administration

Hearing before the
Senate Small Business Committee
March 2, 1994

QUESTIONS FROM SENATOR BUMPERS

1) **Guaranteed Loan program:**

Question: With respect to the reforms made last year to the 7(a) program, particularly the fee on sales in the secondary market and the excess premium fee of sales made at more than 110 percent of par, has there been decline in secondary market sales?

Answer: Secondary market activity dropped significantly in September, 1993 after implementation of the 40 basis point program fee. Since the changes were announced in early August, program participants rushed to complete as many sales as possible before the September deadline. We do not believe that any of the decline was due to the fee charged to loans sold at a price greater than 110. Since that time volume has rebounded, but is down slightly. In calendar year 1993, average monthly volume was 716 loans for $187 million. Average monthly volume for FY 1994 to date is 625 loans for $162 million. This is about a 12 percent drop from FY 1993.

Question: Has there been a marked decline in secondary market sales or in sales above 110?

Answer: We do not consider the 12 percent drop described above to be a cause for concern about the secondary market. There has been a decrease in sales at a price greater than 110. Sales above 110 in FY 1994 are about one-third the level that existed in FY 1993.

Question: In light of the rapid increase in the 7(a) program, do you believe SBA has sufficient personnel to process loan applications and operate the program efficiently?

Answer: We are concerned about the level of personnel available for operating the 7(a) loan program, however, we believe that we will be able to operate the program effectively by transferring employees from staff positions elsewhere in the Agency to district offices and by developing new programs that permit SBA to become more efficient. We have already had one program of voluntary reassignments

to field offices. New initiatives such as Low Doc and the Small Loan Express will allow SBA to put small loans on the books with little or no SBA involvement. This will permit the Agency to use its loan officers to review larger loans where SBA's exposure is much greater.

Question: In Administrator Bowles' written testimony before the Commerce, Justice, State Appropriations Subcommittee, he noted that you are considering a centralization of the application end of the 7(a) loan-making process. How do you expect that to work? What are your estimates of savings from this change?

Answer: We are studying the possibility of centralizing loan processing to see if economies of scale can be attained. The first phase of the test is to centralize PLP processing in Sacramento, California. Because SBA's review of a PLP loan application package is limited to a review of the eligibility of the applicant, it can be accomplished very quickly. We expect to provide better service to PLP lenders and we expect to have a more consistent application of PLP policies. We have not developed estimates of savings from centralization because it is our desire to use the time made available in the district offices to improve processing times on 7(a) and 504 loan applications.

Question: Do your records indicate that there has been a diminution of fixed rate loans since the program was amended in August 1993?

Answer: The percentage of fixed rate loans for FY 1993 was 12.9 percent. As of March 31, 1994, the percentage for the current fiscal year is 13.5 percent.

2) Disaster Loans

Question: How many disaster loans did SBA make in the Midwest floods that were in amounts between $500,001 and $1,000,000, and between $1,000,001 and $1,500,000? Also list the amount of loans in each category. Please provide a state-by-state breakdown of where the loans were made, including the dollar value of such loans.

Answer: Please see the attached chart.

Question: The Administrator stated previously to the Commerce, State, Justice Appropriations Subcommittee that he is withdrawing its proposal to raise interest rates charged to disaster loan borrowers. Will the Administration submit a formal budget amendment pursuant to the Budget Act which will replace the outlays which would have been saved by this proposal -- a proposal which I agreed was a bad idea?

When can such an amendment be expected?

Answer: The proposed disaster interest rate increase was made in direct response to the Federal deficit considerations. The effect of this proposal was to reduce the program's subsidy rate from 24.41 percent to 12.67 percent. This resulted in a reduced appropriation requirement of $48.3 million to support the 10 year average program level.

The Administrator's statement was based on the data on demand for disaster loans that was available as of the date he testified. At that time, it was expected that there would be sufficient carryover funds at the end of this fiscal year to preclude the necessity for increasing the interest rate to provide disaster program funds sufficient to support the 10 year average program level. Since that time, however, the level of demand for loans in the Northridge earthquake has assumed unprecedented proportions and our previous calculations have to be substantially revised. The President has released to SBA all of the contingency funds available. Although carry-over funds and the contingency funds enable us to support a program level of approximately $3.6 billion, we still cannot forecast the sum of demand from the earthquake with any level of comfort. Both OMB and SBA are continually monitoring this situation and as soon as we are able to make a reasonable forecast, we will consider all available options for supporting the disaster assistance program.

3) Program Improvements:

Question: The President's budget proposes changes in authorizing law to be included in the 1995 appropriations acts. This is a serious concern to our Committee as it usurps the Committee's legislative authority. Similarly, the Commerce, State, Justice Appropriations Subcommittee has requested a report detailing areas of improvement for the Disaster Assistance program. Since such changes would fall into this Committees's jurisdiction, the Committee would like a copy of that report when it is submitted to the Appropriations Subcommittee. Will SBA provide the Committee with a copy of that report? When can it be expected?

Answer: At this time our priority efforts are being expended to handle the enormous workload from the Northridge earthquake, along with continuing efforts in the Midwest and other disasters that are expected before the end of the fiscal year. After each major disaster, and particularly one of the magnitude of the Northridge earthquake, there are numerous critiques and studies of lessons learned. As in the past, SBA will be an active participant in many of these and will conduct a review of

its own efforts in implementing the disaster assistance program. Our hope is to simplify the provision of assistance to victims and make the program more user friendly. When the review is made, any report will certainly be provided to the Committee.

QUESTION FROM SENATOR BURNS

Question: I wrote to Mr. Bowles late last year regarding the SBA's so-called 'opinion molder' rule. This matter was brought to my attention by a constituent who owns a movie theatre in Polson, Montana.

Under the 'opinion molder' rule, movie theatres are unable to obtain loans -- including 7(a) loans -- from the SBA. I would argue that the vast majority of movie theatres are in the business of showing movies, not propagandizing.

If video rental stores are eligible for SBA loans, I believe that movie theatres should also have that privilege. I am encouraged that the SBA is considering the 'opinion molder' rule, and I hope it will exempt movie theatres from this rule.

I would like to know if the SBA is expecting a decision on this matter in the near future.

Answer: The SBA, by way of a final rulemaking published in the April 5, 1994 Federal Register (attached), has repealed entirely the "opinion molder" rule, thereby making movie theaters and other previously prohibited businesses eligible for SBA backed loans.

§ 304.7 [Amended]

3. In § 304.7, the line in the table pertaining to § 304.6 is removed.

By Order of the Board of Directors.

Dated at Washington, DC, this 22 day of March 1994.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Acting Executive Secretary.

[FR Doc. 94-7939 Filed 4-4-94; 8:45 am]

BILLING CODE 6714-01-P

SMALL BUSINESS ADMINISTRATION

13 CFR Part 120

Business Loan Policy—Media Policy Rule

AGENCY: Small Business Administration (SBA)

ACTION: Notice of proposed rulemaking.

SUMMARY: SBA is proposing to repeal its present media or opinion molder policy rule. Under the rule, as proposed, small business concerns engaged in media activity would be eligible for SBA financial assistance unless they are otherwise ineligible (such as businesses engaged in illegal activities or in activities that could not be funded by SBA under the Constitution, and businesses which are not creditworthy). This action is being taken to enable SBA to promote job growth and economic development by making SBA financial assistance available to a larger number of small business concerns.

DATES: Comments may be submitted on or before May 20, 1994.

ADDRESSES: Comments may be mailed to John R. Cox, Assistant Administrator for Financial Assistance, Small Business Administration, 409 Third Street, SW., Washington, DC 20416.

FOR FURTHER INFORMATION CONTACT: John R. Cox, 202/205-6493.

SUPPLEMENTARY INFORMATION: It is timely for the Agency to consider major substantive changes in the media policy rule. Under SBA's present regulatory policy, no business loan may be made to an applicant engaged in the "creation, origination, expression, dissemination, propagation or distribution of ideas, values, thoughts, opinions or similar intellectual property, regardless of medium, form or content." (13 CFR 120.101-2(b) (1993)). There are several express exceptions to this prohibition.

This policy was originally adopted by SBA in 1953 under the authority granted by section 4(d) of the Small Business Act (15 U.S.C. 633(d)) which authorizes the Agency to "establish general policies (particularly with reference to the public interest * * *), which shall govern the granting and denial of applications for financial assistance by the Administration." The Reconstruction Finance Agency, the predecessor to SBA, had a similar media policy rule.

There were three basic reasons for the policy. First, the prohibition is based upon SBA's desire to avoid any possible accusation that the Government is attempting to control editorial freedom by subsidizing media or communication for political or propaganda purposes. Second, the Agency has generally sought to avoid Government identification through its business assistance programs with concerns which might publish or produce matters of a religious or controversial nature. Third, SBA recognizes that the constitutionally protected rights of freedom of speech and press ought not to be compromised either by the fear of Government reprisal or by the expectation of Government financial assistance.

Over the years, Congress has considered the policy and has not objected to SBA's approach. In H.R. Rep. No. 840, 94th Cong., 2d Sess. 28 (1976), the Subcommittee on SBA Oversight and Minority Enterprise acknowledged that SBA's statutory duty to assist small business "must be in balance with supervening First Amendment prohibitions. The Subcommittee does not believe that the SBA should engage in activities which would necessitate its assumption of a censorship role. By censorship we mean the ability of SBA to direct a business as to what it can do or cannot do, relative to First Amendment protected activity, coupled with the power to enforce its will through the use of sanctions. The subcommittee believes such censorship would exist if SBA were to place in its loan agreements a prohibition against the promulgation of certain ideas and values, a breach of which would allow the Agency to liquidate the loan."

Many individual members of Congress have expressed concern with the substance of SBA's regulations in this area. Several bills have been introduced to deal with the rule legislatively, although none has been enacted. For example, S. 2084, 98th Cong., 2nd Sess. (1984), would have abolished the rule except in cases where the financial assistance would have been used primarily to (1) advance or inhibit religion, (2) threaten the overthrow of organized Government by unlawful means; or (3) engage in any illegal activity or the dissemination of obscene materials which may be unlawful in any jurisdiction in which the small concern may operate. S. 2084 also would have required SBA to look at the content of the publications or communications in making its decision to assist a particular small concern.

H.R. 1157, 98th Cong., 1st Sess. (1983), would have required SBA to hold a hearing, if the business was covered by the media policy rule, in order to ascertain if the SBA financial assistance would have been (1) adverse or detrimental to a legitimate public interest, or (2) used primarily to promote or criticize political or religious ideas. This approach would have led to lengthy hearings on applications for assistance every time the Agency interpreted the law adversely to an applicant.

SBA testified on both of these bills and supported a legislative remedy to the problems associated with administration of the rule. However, no legislation has been forthcoming.

In hearings on March 7, 1984, before the House Subcommittee on Export Opportunity and Special Small Business Problems, which was considering H.R. 1157, an expert in Constitutional Law on the faculty of the George Washington University Law School testified that the media policy rule was constitutional and was a justifiable approach in light of SBA's business and financial orientation and limited First Amendment expertise. However, there have been concerns raised over the years regarding the breadth of the present rule.

The regulation presently provides a very broad list of ineligible enterprises which includes publishers, producers, importers, exporters or distributors of all types of communications (such as newspapers, sheet music, posters, film, tape, theatrical productions, greeting cards, and books), plus transportation concerns limited to the distribution of such products. Regulatory exceptions have been granted to commercial printing firms, advertising agencies, technical production facilities (such as a recording studio), and vocational schools. Eligible for assistance based on administrative interpretations are general merchandise stores which sell books, magazines and newspapers, and general book, music, record or videotape stores. Not eligible for assistance are specialty book or videotape stores which sell or rent items in a single or limited subject area. The rationale underlying the distinction between general and specialty stores has been that a general store covers a broad range of ideas, values and thoughts, rather than a particular or narrow set of ideas or values. SBA no longer regards this

distinction as a proper basis for determining eligibility.

SBA is well aware that small media concerns often have difficulty in raising capital or borrowing money. The media policy rule applicable to the financing of business loans has not been applicable to assistance provided by small business investment companies (SBICs) which are licensed by SBA. Thus, SBICs are permitted to help businesses engaged in the media. The policy surrounding SBIC assistance to media concerns is similar to the approach taken by the Congress in funding broadcasting through the nonprofit Corporation for Public Broadcasting. SBICs operate within SBA regulations, but their transactions with small companies are private arrangements which carry no SBA guaranty. Their funding comes from private, SBA and other nonprivate sources.

SBA also has been making physical injury disaster loans to media concerns and academic schools since 1953, based on humanitarian grounds. The disaster loan program attempts to restore to an injured party that which was lost due to circumstances beyond its control. No distinction is made for eligibility purposes between media and non-media concerns for physical disaster loans, but economic injury disaster loans are subject to the limitations of the media policy rule.

SBA believes that the assistance it presently makes available under the exceptions to the media rule and under the SBIC and disaster programs are not sufficient to assist small businesses in the media industries which are demonstrably in need of increased aid. Accordingly, SBA is proposing to change its policy so as to make assistance available, under the 7(a) business, economic injury disaster and development company loan programs, to media concerns which are otherwise eligible for such assistance.

While SBA is proposing to repeal the present rule primarily in order to make assistance available to a larger universe of small businesses, it is not unmindful of the implications of a total reversal of the policy. It has considered whether the policy determinations which where the underpinnings of the former rule should be maintained. After careful review, SBA is persuaded that repeal is appropriate.

A revision of the present rule which would attempt to differentiate among media businesses on the basis of business activity likely would be challenged in court. There is a risk that such proposed revision would be found unconstitutional. Keeping the Government from becoming involved with controversial speech may be a worthy goal, but it arguably puts the Government in the position of allocating benefits with reference to the content of speech. This type of decision could be held by courts to be in conflict with the First Amendment.

SBA believes that it present regulatory apparatus and administrative practice are sufficient to protect the public interest. In this regard, the present credit criteria under which applications for such assistance are reviewed and the prohibition on funding illegal activities should be sufficient to provide the desired level of protection. (See 13 CFR parts 120 *et seq.* and 122 *et seq.*, specifically 13 CFR 120.101-2(d) and 120.103-2.)

Compliance With Executive Orders 12612, 12778 and 12866, the Regulatory Flexibility Act, 5 U.S.C. 601, et seq. and the Paperwork Reduction Act, 44 U.S.C. Ch. 35

For purposes of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, SBA certifies that this proposed rule, if promulgated in final form, will not have a significant economic impact on a substantial number of small entities.

SBA certifies that this proposed rule, if promulgated in final form, will not constitute a significant regulatory action for the purposes of Executive Order 12866, since the proposed change is not likely to result in an annual effect on the economy of $100 million or more. While the proposed rule is intended to make eligible more media small business concerns, it is reasonable to assume that SBA will not be requested to process a disproportionate number of additional media loan applications. For example, in fiscal 1991, 1992 and 1993, respectively, SBA guaranteed 202, 199 and 241 section 7(a) loans to eligible bookstores, advertising agencies, video stores and vocational schools. The aggregate amounts of the SBA guaranteed portions for those three years for such businesses were, respectively, $27.7, $28.7 and $35.2 million.

SBA certifies that the proposed rule, if promulgated in final form, would not impose additional reporting or recordkeeping requirements which would be subject to the Paperwork Reduction Act, 44 U.S.C. chapter 35.

SBA certifies that this proposed rule would not have federalism implications warranting the preparation of a Federalism Assessment in accordance with Executive Order 12612.

Further, for purposes of Executive Order 12778, SBA certifies that this proposed rule, if promulgated in final form, is drafted, to the extent practicable, in accordance with the standards set forth in section 2 of that Order. (Catalogue of Federal Domestic Assistance Programs, No. 59.012, Small Business Loans)

List of Subjects in 13 CFR Part 120

Loan programs/businesses; Small businesses.

Accordingly, pursuant to the authority contained in section 5(b)(6) c the Small Business Act (15 U.S.C. 634(b)(6)), SBA proposes to amend par 120, chapter I, title 13, Code of Federal Regulations, as follows:

PART 120—BUSINESS LOAN POLIC

1. The authority citation for Part 12 would continue to read as follows:

Authority: 15 U.S.C. 634(b)(6) and 636 (a) and (h).

2. Section 120.101-2 would be amended by removing paragraph (b) in its entirety, and redesignating paragraphs (c) through (h) as paragra (b) through (g).

Dated: March 17, 1994.

Erskine B. Bowles,

Administrator.

[FR Doc. 94-8138 Filed 4-4-94; 8:45 am]

BILLING CODE 8025-01-M

DEPARTMENT OF TRANSPORTATIC

Federal Aviation Administration

14 CFR Part 39

[Docket No. 93-NM-206-AD]

Airworthiness Directives; de Havilla Model DHC-8-100 and DHC-8-300 Series Airplanes

AGENCY: Federal Aviation Administration, DOT.

ACTION: Notice of proposed rulemak (NPRM).

SUMMARY: This document proposes t adoption of a new airworthiness directive (AD) that is applicable to certain de Havilland Model DHC-8- and DHC-8-300 series airplanes. Th proposal would require a revision to Airplane Flight Manual (AFM) to ad flight crew members that certain coc indications may reveal faulty anti-collision strobe light units, and to provide procedures for subsequent f crew action. This proposal would a require a modification that eliminat the need for the AFM revision. This proposal is prompted by reports tha function of the proximity switch electronics unit (PSEU) may be

The CHAIRMAN. Our second panel consists of one person, Mr. Anthony Wilkinson. He is president and chief executive officer of the National Association of Government Guaranteed Lenders from Stillwater. Mr. Wilkinson, you do not have a 34-page statement; do you?

Mr. WILKINSON. No, sir. I will be mercifully short.

The CHAIRMAN. Welcome. We are glad to see you again.

STATEMENT OF ANTHONY WILKINSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

Mr. WILKINSON. Thanks for having me back. I would like to say that I am happy to be here today not to complain about the shortcomings of a budget request, but to applaud the administration for its recognition that small businesses are an important part of our overall economic effort and that the SBA and its loan programs provide much needed capital to small businesses.

I thank the administration for understanding that it is vitally important that 7(a) and other loan programs run by the SBA be fully funded so that the credit needs of small businesses in this country can be met. I hope that, through the appropriations process, Congress will continue to show its support for these vital small business loan programs and fully fund the President's recommended $11.9 billion worth of business lending through the SBA.

In my letter of invitation today I was asked to comment on several SBA initiatives including the One Stop Capital Shops, GreenLine, Revolving Line of Credit, Export Revolving Line of Credit, the Low Documentation Program, Loan Express Program and the Women's Prequalified Loan Program. NAGGL supports each and every SBA initiative that I just mentioned. I was also asked to comment on Senator Feinstein's bill authorizing the Small Business Defense Conversion Guaranteed Loan Program, Senate bill 1830. We also support that effort, and we are hopeful that funds can be used from the Fiscal Year 1995 defense budget to fully fund this initiative.

Each of these initiatives appropriately addresses the credit needs of various segments of the small business community. While NAGGL is supportive of all these initiatives, we must also realize that SBA cannot be expected to continue to deliver more services without some realignment of or addition to resources. Many SBA field offices are already overwhelmed by their current responsibilities, and SBA field offices must have the resources and delivery systems to meet their current and expanding needs.

To address the resource problem, SBA is proposing some organizational initiatives. I know Mr. Bowles has proposed a reorganization plan that would push staff members from the central and regional offices down to the field. While we are not aware of the specifics of the reorganization plan, we wholeheartedly agree with the concept. SBA simply needs to find a way to put more people at the point of delivery to the small business customer.

Second, we support SBA's efforts to streamline its operations through the use of centralized service centers. The Fresno Business Loan Service Center has worked quite well. There are plans to

expand that. There is also a pilot program underway for centralized processing of preferred lender loans, and I think this is the right direction. These efforts should create economies of scale while at the same time improving consistency and improving service to our borrowers.

Next, SBA needs to continue to place more reliance on the lending community. One evidence of that is in the Low Doc Program where lenders are required to service and liquidate all the loans. A second alternative would be to increase the preferred lender guaranty percentage back up to a higher level. Since the legislative changes last August, the PLP loans, as a percentage of loan approvals, have dropped quite dramatically. This means more loans are being physically processed by the SBA, placing a further drain on their limited resources.

The CHAIRMAN. Just a minute, now. We dropped that from 80 percent to what?

Mr. WILKINSON. 70.

The CHAIRMAN. To 70. Go ahead.

Mr. WILKINSON. And, most importantly, it is the small business borrowers who would have gotten a quicker turnaround who are now finding their loan applications are in a backlog at the SBA.

As a long-term alternative to increasing the PLP guaranty percentage, NAGGL has begun a review of a securitization method where the unguaranteed portion of SBA loans could be placed into a security, hopefully matching an investment source seeking the longer-term maturities offered by the SBA. This review process is in very early stages, and I am not here to offer a proposal.

I did want to mention that it is something that the industry is taking a look at to try to find a way, as lenders are asked to take more and more exposure on each credit, of limiting term risk. It is a problem for a lender who is funded by short-term deposits to be making long-term loans, and that is exactly why the SBA program has been so successful. They can, with the government guaranty, sell off the loan into the secondary market and not take undue term risk.

I also wanted to spend just a moment on the fixed-rate loan issue. With all due respect to the SBA, I was the one who wrote the letter last summer asking them to take a look at expanding the amount of interest that was allowable under the fixed-rate loan program. I believe that fixed-rate loans are a valuable option to the small business borrower, and while you were having the discussion earlier I jotted down some notes that I wanted to cover just briefly.

There are two distinct sets of investors in the SBA program, those looking for variable-rate paper and those looking for fixed-rate paper. Variable-rate buyers are looking for the SBA product as a comparison to 30 to 90-day T-Bill rates, and if they can find an additional spread over the T-Bill rates, that is an acceptable investment for them. The fixed-rate program is a little bit different. Fixed-rate buyers are going to the peak of the yield curve, which today is around 7 percent, for their starting point.

Now, you said on your home loan that you were getting a rate of 7.25 on a 30-year loan. Most of the investors who are buying that product are probably looking at a 7-1/8 rate, and the lender is getting 1/8 servicing on that product.

The bid to an SBA lender today would not be the 7-1/8 but would be closer to 8 percent, and that is because of the uncertainty in the prepayment speed of that loan. So, while the peak of the yield curve is around 7 percent, a bid to an SBA lender would be 7.75 to 8. Now, when you add to that 40 basis points secondary market fee, you are now at around an 8.4 sell price at the lender. And its current limitation is at 8.75, leaving him 35 basis points of interest margin. That is, by 7(a) standards, not a sufficient amount based on the processing time that it takes to do one of these loans.

The CHAIRMAN. Mr. Wilkinson, let me interrupt you just at that point. I am not going to have any questions for you, I do not think, when you finish, so I might as well make this point now.

One of the things that troubles me as a former small business person is that I had to do whatever the bank told me to, I was so desperate for capital all the time. And most of these programs were just not in existence then. You just got a loan. At the end of the year, you had to go and renew it and do the best you could and plead and beg and mortgage your wife and kids.

Here, I mean, we still think of SBA loans as loans being made to the neediest business people who need capital badly and simply cannot get it in the private market. Now, when you increase this loan rate for them, when you go up to 9.75 for a 7-year loan, most of those guys are sort of at the bank's mercy. Let us face it. They are at their mercy, and they will take it. But that does not make it fair.

And, as I say, I do not want to belabor that any further this morning. We just have that slight disagreement on that.

Mr. WILKINSON. I can appreciate your concern. Before the 40 basis point secondary market fee was instituted, the average the fixed rate was running was between 9 and 9.25. I would believe today that you would see fixed rates offered to borrowers at around 9.5.

The CHAIRMAN. Let me ask you this. What is the ordinary small businessman who has a line of credit paying at the bank today on fixed-rate loans, on fixed-term loans?

Mr. WILKINSON. On fixed rate loans?

The CHAIRMAN. Yes. You know, my son is a businessman and he borrows quite a bit of money. I know essentially what he is paying. But he has developed a pretty good track record now and the bank is interested in his business. Everybody is not in that position. So my question is: Just the ordinary business guy, what it he paying?

Mr. WILKINSON. I would give two answers to that. First of all, on term loans, banks do not usually offer those. Again, they are funded by short-term deposits. You do not turn around and put those in long-term loans. They run into term risk problems with banking regulators, so their horizons will be much shorter than you would find in the SBA 7(a) program. Where SBA would give you a 7-year maturity, a banker is probably going to give you a 3-year maturity.

But, typically, without the SBA program, you are not finding fixed-rate term business loans being made. They are primarily variable rate. Under the variable rate side, they would vary from spread over New York prime to a spread over an internal index that a bank would have created.

The CHAIRMAN. Does the ordinary small businessman who is doing say less than $1 million business a year, usually have a revolving line of credit?

Mr. WILKINSON. I would not say usually. Some people need it and some people do not.

The CHAIRMAN. It is done, but it is not customary; is that what you are saying?

Mr. WILKINSON. It just depends on the business operations.

The CHAIRMAN. Well, I interrupted you. Go ahead.

Mr. WILKINSON. From my perspective, if I were to borrow today and somebody could offer me a 9.5 percent fixed rate versus an 8.75 percent variable rate, I personally would opt for the fixed rate because it takes away my interest rate risk, especially if I am looking at a 15-year or 20-year loan. The additional spread in today's market to me is worth it, knowing that I have got a fixed cost on my borrowed money.

The CHAIRMAN. But that assumes, Mr. Wilkinson, the bank is not going to make the loan otherwise.

Mr. WILKINSON. They are not going to make it under a fixed rate.

The CHAIRMAN. That is what I am talking about. You are saying that they are not going to make the loan under the present setup on a fixed term; is that what you are saying?

Mr. WILKINSON. I am saying that my members have been saying that the long-term, fixed-rate loans we all used to make under the 7(a) program, we cannot make anymore because there is no spread left. Now we have gone from having a lender who would have been willing to offer you a 9.5 percent fixed rate who says, "Today you are going to take the spread over prime. That is the only product we can offer."

The CHAIRMAN. If I understood Ms. Pulley, she testified that there is no diminution in the availability of credit as a result of what we did last year, nor did she indicate that there is any diminution of—I may have misunderstood her. Maybe she did not say this.

Mr. WILKINSON. There is no question that loan volume continues to go up. There are still many, many small businesses who need access to capital, and the loan volume is going to go up.

The CHAIRMAN. My question is: Within that increased volume, is there a diminution of fixed-term loans?

Mr. WILKINSON. What we need to find out from SBA is, with all their initiatives, several of them being short-term in nature, it is not unusual for a contract line of credit or a seasonal line of credit to be done on a fixed rate because they have a very short duration. It is unusual for the longer-term maturities, 10, 15, 20 years. That is where I would expect to see the fixed-rate loans in those maturity categories will fall. For 7-year loans today, we are probably okay with the current rate structure. For 15-year, 20-year loans, there is not enough margin.

The CHAIRMAN. Well, of course, only about half of these loans are sold on the secondary market; are they not?

Mr. WILKINSON. It had been running about half. Last year it was down to 37 percent.

The CHAIRMAN. Would you expect that to decline if we do not increase the interest rate still further?

Mr. WILKINSON. No. I do not expect that the secondary market usage would fluctuate, with or without this change. If a lender needs to access a secondary market, he will continue to do so, be it fixed or variable. They just will not access the fixed-rate portion.

The CHAIRMAN. Okay. Go ahead.

Mr. WILKINSON. I was also asked to pull out the crystal ball and make an estimate of loan volumes through Fiscal Year 1997. On page nine of my testimony there is a chart that does so. I anticipate that we will have a loan volume demand this year of $7.6 billion. Over the last 3 years, SBA's second half loan volume has outpaced the first half by pretty close to $800 million year after year. We are on pace to do $3.4 billion this first half. Add $800 million to it; we are going to do $4.2 billion the second half. So I think we will be somewhere around $7.6 billion. It will be a function of their staff resources.

Currently, they have many members of their field staff on site for the earthquake assistance, so we are seeing some backlog of loan applications. But, all things being equal, we would anticipate about a $7.6 billion program. The out years, we assume a 20 percent growth rate.

One issue I did want to bring up today is the SBA's Request for Proposal for a Fiscal and Transfer Agent to service the 7(a) guaranteed loan secondary market. As the trade association for the lenders who sell SBA 7(a) loans into the market and who, along with the investors in the securities, are the clients of FTA, we have some concerns about the process.

First of all, the current servicing operation is not broke. In fact, it is working quite well. We have absolutely no complaints. We are very pleased with the performance of the current Fiscal Transfer Agent, Colson Services Corporation.

The CHAIRMAN. Have you made your opinion known to SBA about this RFP?

Mr. WILKINSON. Yes.

The CHAIRMAN. Okay. Would you share that with me?

Would you mind sending me a letter expressing in more detail your concern about that?

Mr. WILKINSON. We will be happy to get you one.

The CHAIRMAN. Okay.

Mr. WILKINSON. Let me summarize by saying we would like to see that that process gets watched. This is a contract that has got to be bid or service. We have got a market that has grown sevenfold over the last 8 years. We simply do not want to see poor service to the borrower or the investor, because ultimately that will negatively impact the availability of capital to small business.

Again, in regards to Colson Services, I cannot imagine what else anybody could have asked from them that they have not already done. They have just been a real trooper.

Our one concern over the Fiscal and Transfer Agent aside, we believe the SBA loan programs are well managed. They continue to level out the playing field for smaller companies by providing them the same access to affordable long-term credit enjoyed by larger

companies. It is done at a minimal federal cost and a minimum of interference in the free marketplace.

We commend you, Mr. Chairman, and this Committee for its past support of the SBA and its loan programs, and we urge increased support now as the small business sector plays a most important role in these economic times. We must find ways to encourage the entrepreneurial spirit, encourage people to go into business and create jobs, develop technology, employ people and generate tax revenues. One way to do that is to continue your support of the SBA and fight for full funding of its loan programs.

That is really all the comments I had today. I would be happy to answer any other questions.

[The prepared statement of Mr. Wilkinson follows:]

PREPARED STATEMENT OF ANTHONY R. WILKINSON

Mr. Chairman and distinguished members of this Committee, it is again a pleasure for me to appear before you to discuss the state of the Small Business Administration's 7(a) guaranteed loan program. I am here today in my capacity as the President of the National Association of Government Guaranteed Lenders (NAGGL), the trade association representing the SBA 7(a) lending industry. Our 600 member institutions account for approximately 70 percent of all the SBA 7(a) loans that are approved annually.

Let me begin by saying that this is an exciting time to be involved with the SBA and its loan programs. Over the past several years, the SBA and the lending community have provided record amounts of capital to the small business community. Even still, the demand for capital by small businesses continues to grow, as evidenced by the fact that loan volume through the first quarter of fiscal year 1994 is already 35 percent ahead of last years record pace. The SBA has done an excellent job in bridging the capital gap for small businesses; but there is still much to do.

For the first time in several years, I am here today, not to complain about the shortcomings of a budget request, but to applaud the Administration for its recognition that small businesses are an important part of the overall effort to create and sustain a pattern of 2 steady economic growth and job creation. Without the success of small business, this country will not have a sustained and widespread economic recovery.

Without capital, small businesses cannot start, grow and prosper, and create jobs. I thank SBA Administrator Bowles and the Administration for understanding that it is vitally important that the 7(a) and other SBA loan programs be fully funded so that the credit needs of small businesses in this country can be met. I hope that through the appropriation process, Congress will show its support for these vital small business loan programs and fully fund the President's recommended $11.9 billion in SBA business lending.

In my letter of invitation, I was specifically asked to comment on several SBA initiatives. The list included One-Stop Capital Shops, the Green Line Revolving Line of Credit, the Export Revolving Line of Credit, the Low-Documentation Program, the No-Doc or Loan Express Program, and the Women's Prequalified Loan Program. I was also asked to comment on Senator Feinstein's bill authorizing the Small Business Defense Conversion Guaranteed Loan program (S. 1830).

First of all, NAGGL supports each and every SBA initiative listed above. Many sectors of the small business market remain starved for 3 capital, and these initiatives address many specific areas of need. And the SBA is addressing these needs in an entrepreneurial fashion. For instance, the Low-Doc program reduces the paperwork required for a loan application of $100,000 or less. The credit review then focuses on the applicant's character and willingness to repay debts as evidenced by credit history. In exchange for a 90 percent guaranty and a simpler loan application process, the lender must be willing to accept the responsibility for and pay the costs of any liquidations. Through February 26, 353 loans had been approved for $19.1 million for an average loan of about $54,000. Of the approvals, 30 percent were for start-up operations and 40 percent were to women or minority owned businesses.

NAGGL also supports Senator Feinstein's effort to create the Small Business Defense Conversion Guaranteed Loan Program. We agree with the Senator's assessment that the best way to minimize the economic disruption caused by base closures and defense downsizing is to create jobs in those communities by supporting the ex-

pansion of small businesses. It is during difficult times that borrowers need capital the most, but often find that lenders are constrained from making needed loans, thereby further restricting access to capital for small business. Best of all, the loan program created in S. 1830 will require no new bureaucracy to administer as it would operate as a part of the SBA's 7(a) loan program.

While NAGGL is supportive of all these initiatives, we must realize that SBA cannot be expected to continue to deliver more services without some realignment of resources. Many SBA field offices are already overwhelmed by their current responsibilities. SBA field offices must have the resources and delivery systems to meet their current and expanding needs.

To address the resource problem, SBA is proposing several organizational initiatives. First, Mr. Bowles has proposed a reorganization plan that would reduce the number of employees in the central and regional offices and allocate those positions to field offices. While NAGGL is unaware of the specifics of the reorganization plan, we support the concept of moving staff to the field offices. This will allow SBA to improve the delivery of service to small businesses, and at the same time, put SBA in a better position to handle its expanding workload.

Second, NAGGL supports SBA's efforts to streamline its operations through the use of centralized business loan service centers and a centralized preferred lender loan processing center. These efforts should create economies of scale, while at the same time improving consistency and improving the service to small businesses.

Third, NAGGL recommends that the preferred lender guaranty percentage be increased back up to 80 percent (75 percent for loans with maturities in excess of 10 years). Since the legislative changes last August, PLP loans, as a percentage of loan approvals, have dropped dramatically. This means more loans are being physically processed by the SBA, placing a further drain on the existing limited SBA personnel. SBA's transaction costs increase because of the greater amount of handling required on each application. And, most importantly, the small business borrowers suffer as loans backlog at the SBA, reducing response times to loan applications.

One reason that lenders are shying away from the preferred loan program is the amount of capital a lender is required to put in each transaction. Bank lenders simply cannot make long term loans, the kind most needed by small businesses, when their funding source is short term deposits. In other words, you do not borrow short to lend long. It is that simple. Lenders will opt for the highest guaranty percentage possible, not only as a hedge against credit risk, but as a way to limit their term or maturity risk.

One concept that NAGGL is reviewing is the possibility of securitizing the unguaranteed portions of SBA loans. Perhaps there is a way to match an investment source seeking the longer maturities 6 offered by SBA loans. Lenders would make and service loans just as they do today, but securitizing the unguaranteed portion would help reduce a lenders maturity risk. Since the review process has just begun, I am not here to offer a proposal. But the SBA 7(a) program is the natural place to begin the discussion of small business loan securitization. The SBA has many years of historical information on the performance of the loan program plus a nationwide delivery system and a standard loan application process already in place. If lenders had the ability to securitize the unguaranteed portion today, I believe preferred lender usage would not have dropped off as dramatically as it has.

The Money Store Investment Corp., an SBA non-bank lender, has already been successful in securitizing the unguaranteed portions of SBA loans in their portfolio. This provides evidence that the concept is workable, albeit, it will be more difficult when multiple loan originators will be involved. One issue that needs to be discussed is that The Money Store Investment Corp. was able to complete this transaction because, from an accounting perspective, they were able to follow, as they should, generally accepted accounting principles. Bank lenders would not be able to take part in this type of transaction because federal bank regulatory agencies ignore GAAP in favor of a much more conservative regulatory accounting treatment. While this 7 is another issue for another day, I wanted to begin to lay the groundwork that for bank lenders to participate in any small business securitization transaction, legislation will be required instructing the banking agencies to account for the transactions using generally accepted accounting principles.

Another problem created from last years legislative changes was that lenders are no longer able to make fixed rate loans. There is simply not enough margin left for the lenders since those who now utilize the secondary market are charged a 40 basis point fee. Lenders who offer fixed rate loans (about 10 percent–15 percent of annual approvals) are providing a valuable option to their customers. That is, for the life of their SBA loan, the borrower will not be faced with the risk of fluctuating interest rates. With fixed rate loans, the interest rate risk is borne by the investor and

hence the price paid to the lender is substantially less. While it is common for variable rate loans to be sold at some level of a premium, fixed rate loans trade almost always at par.

The SBA has published for comment a proposal to increase the spread over prime allowed for fixed rate loans. NAGGL supports this proposal. The higher rate allowance on fixed rate loans would allow those lenders who desire to provide fixed rate loans to their borrowers (albeit at less profit) the ability to do so. Without the rate change, otherwise-willing fixed rate lenders are forced to offer only variable rates, and force the borrower to take on the interest rate risk. Some may view this as a "give-back" to the lenders in light of last year's legislative changes, but that is simply not the case. I hope that the members of this Committee will support SBA's efforts to have a fixed rate loan opportunity for those willing lenders and their small business borrowers.

My letter of invitation for today also asked for an estimate of loan volumes through fiscal year 1997. The following chart details the actual past performance plus our estimate of loan volume ($ in billion) for the future years:

Year	Amount
1986	2.6
1987	2.8
1988	3.1
1989	3.1
1990	3.6
1991	4.1
1992	5.6
1993	6.4
1994 estimated	7.6
1995 estimated	9.1
1996 estimated	11.0
1997 estimated	13.2

Our forecast is based on an assumed 20 percent growth in borrower/lender demand, considering small businesses' increasing needs for capital plus SBA's new program initiatives. These estimates also assume that SBA obtains, through its streamlining and reorganization initiatives, and through the appropriation process, the sufficient resources to meet this increase in demand.

One issue of concern centers around the SBA's Request for Proposal (RFP) for a Fiscal and Transfer Agent (FTA) to service the 7(a) guaranteed loan secondary market. As the trade association for lenders who sell SBA 7(a) loans into the secondary market and who, along with investors in 7(a) securities, are the "clients" of the FTA, NAGGL has serious concerns about the SBA's RFP.

First, NAGGL is very pleased with the performance of the current FTA, Colson Services Corporation. In fact, Colson has been recognized by NAGGL with Service Awards for outstanding service in each of the last 2 years. But prior to Colson, the 7(a) loan secondary market had a tortured past. Colson took over a chaotic situation from Fidata Corporation, the previous FTA, in the mid-1980's. Fidata was literally unwilling to provide the level of service necessary to make the market function. Loans were in suspense, payments were not made correctly to investors, and lenders could not get straight answers from Fidata as to the status of loans. In short, the situation was such a mess that only Colson, among all other potential FTA's, was willing to come in, assume liability for the loans and correct the problems.

NAGGL simply does not want the previous inefficient service level to reoccur, especially since the 7(a) secondary market has grown seven fold over the last 8 years. Poor service will lead to reduced investor interest and participation, a situation that will ultimately negatively impact the flow of capital to small businesses. Neither the SBA, nor the program, can afford to wake up one morning to read in the Wall Street Journal about improper and inadequate loan servicing on a security that has a timely payment guarantee and a full faith and credit guarantee of the federal government.

The bottom line is that for the sake of the borrowers, lenders, investors and government participants, the Agency simply cannot afford to make a mistake. NAGGL would appreciate your making clear to SBA, as we have already done, that any diminution of service by the current or any new FTA is totally unacceptable. We fur-

ther respectfully request that the Committee exercise oversight of the RFP process for an SBA fiscal and transfer agent.

Our one concern over the fiscal and transfer agent aside, the SBA loan programs are well managed. These programs level out the playing field for smaller companies by providing them the same access to affordable, long-term credit enjoyed by larger corporations. This is done at a minimum of federal cost and at a minimum of interference 11 in the free market system. NAGGL commends the Committee for its past support of the SBA and its loan programs, and we urge increased support now as the small business sector plays a most important role in these economic times. We must find ways to encourage the entrepreneurial spirit, encourage people to go into business and create jobs, develop technology, employ people and generate tax revenues. One way is to continue your support of the SBA and fight for fight for .full funding of its loan programs.

On behalf of all the members of NAGGL, I thank you for this opportunity to again come before this Committee. Mr. Chairman, NAGGL pledges its active cooperation in working with you and the Committee on small business financing issues.

The CHAIRMAN. Mr. Wilkinson, I am going to strike that part of the record where I asked you to share your concerns that you have expressed to SBA about changing Colson Corporation with somebody else, or the Request for Proposal to change that. Staff has mentioned that to me in the past, and I am always reluctant to get involved in a proposed bidding or a bidding contest like that because normally we consider that to be healthy. But I am also aware of what that situation was like before Colson Services Corporation took it. And I share some of your concerns. I do not know whether I am going to raise an awful lot of cain about that or not, simply because I have always thought that competition is the cornerstone of good business practices.

Mr. WILKINSON. I agree with your position.

The CHAIRMAN. But I also share with some of those astronauts who said they always were concerned about that thing being built by the lowest bidder.

[Laughter.]

It does not always turn out the way we think it should simply because we have let a contract go on a competitive basis.

Mr. WILKINSON. I typically would not have even brought it up. But, from SBA's perspective, it is no cost to them and the industry is in fact the one paying the fees. So I took the liberty to say that this is a contract that we believe should be bid on service and not so much on price. It has got to work right.

The CHAIRMAN. More and more of both government and the private sector are issuing bids and trying to get the low dollar. But they are also accepting what they consider the low responsible bid, and oftentimes the low bidder does not get the contract because they foresee all kinds of problems with it. Oftentimes the bid is obviously too low; they could not possibly administer a contract at that price. In any event, we will see further into that.

Mr. Wilkinson, thank you, again. We are always pleased to have you with us.

Mr. WILKINSON. Thanks for having me back.

The CHAIRMAN. We will stand in recess until the next hearing. We will leave the record open for any other questions that Senators wish to submit in writing.

[Whereupon, at 11:30 a.m., the hearing was adjourned.]

[The prepared statements of Senator Feinstein and Senator Pressler follow.]

PREPARED STATEMENT OF SENATOR DIANNE FEINSTEIN

Mr. Chairman, other distinguished members of the Committee, I want to thank you for giving me the opportunity to testify today on S. 1830, the Defense Conversion Loan Guarantee Act of 1994. I would like to extend my gratitude to you, Senator Bumpers, for your assistance in drafting this legislation, and for your support as a co-sponsor.

As members of this Committee well know, while the end of the Cold War is certainly a welcome event, it has nevertheless caused a major restructuring of the Nation's economy. As a consequence, many defense firms are downsizing and laying-off personnel, military bases are closing and businesses are being devastated. In the last 2 years, California alone has lost 250,000 jobs because of military spending cuts. By 1998, estimates indicate that 650,000 jobs will be lost in the state as a result of defense downsizing.

The Clinton Administration has established an ambitious program for retraining individuals who have lost their jobs because of defense downsizing, as well as a long-term strategy to encourage defense-dependent firms to move into commercial markets. These programs make a serious effort to help displaced defense workers and firms adapt to defense cutbacks, and I commend the President for these actions.

The immediate issue, however, is how to create job opportunities in the communities that have suffered from base closure or defense downsizing. In the most comprehensive study conducted on defense conversion to date, the Economic Roundtable, a non-profit research organization, asked business owners what Federal programs are needed to assist firms in dealing with defense cutbacks. Overwhelmingly, business owners replied that government should create programs to help small firms get access to private capital markets.[1] At a time when businesses adversely affected by defense downsizing require capital the most, they have told me that their access to such capital is limited. Bankers are constrained by regulations and by economic uncertainty from making loans to the very businesses that need them the most.

The bill I introduced seeks to provide this capital to the communities that have suffered because of military spending cuts. S. 1830 would authorize $100 million in appropriations from the President's proposed $20 billion defense conversion program to fund a targeted small business loan guarantee program. According to the Small Business Administration (SBA), these funds will leverage nearly $4 billion in private sector loans, and would create or maintain almost 400,000 jobs nationwide.

In essence, this program would link the most dynamic job creation segment of the economy, small business, to one of the Nation's most important needs: defense conversion. Best of all, no new Federal bureaucracy is needed to administer this program. S. 1830 builds upon the existing SBA 7(a) loan guarantee program. Funding for this program will *not* come from the 7(a) program. Rather, I believe it should come from defense conversion funds. The President has proposed a $20 billion program. I believe that this $100 million will provide the most jobs for the least money. As a matter of fact, this program will create or maintain each job at an average of just $250.

Although the Nation's economy has largely recovered from recession, this is not the case for my state of California. In January, California's unemployment rate was 10.1 percent. The double-digit unemployment rate means that over 1.5 million Californians continue to seek, and are unable to find work. Two-hundred thousand more men and women are out of work this month than last month. These figures clearly indicate that California is not producing enough jobs. The major factor of this economic downturn is the reduction in defense spending. I firmly believe the best way to minimize the economic disruption caused by defense downsizing and base closure is to target programs to the areas most in need.

I urge the Committee to move forward on this legislation. This bill has been co-sponsored by Committee members, Senators Bumpers, Kerry and Levin, as well as by Senator Inouye, Chairman of the Defense Appropriations Subcommittee which has funding jurisdiction over this issue.

Once again, Mr. Chairman, I want to thank you for the opportunity to testify this morning. I stand ready to work with you and other members of the Committee to enact this legislation.

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[1]Daniel Flaming and Mark Drayse, *Technology and Jobs: Defense Conversion in the Los Angeles Region,* Economic Roundtable, February 8, 1994.

Prepared Statement of Senator Larry Pressler

I would like to thank Chairman Bumpers for holding this hearing on the Small Business Administration's 7(a) guaranteed loan and disaster assistance programs. I look forward to working with the Chairman during this session on this and many other important issues affecting the small business community.

I also would like to welcome the Deputy Administrator of the Small Business Administration, Cassandra Pulley; Assistant Administrator for Financial Assistance, John Cox; Assistant Administrator for Disaster Assistance, Berky Kulik (QUE lik); and the Executive Director of the National Association of Government Guaranteed Lenders (NAGGL), Tony Wilkinson. I thank them for being here this morning. I have some brief comments regarding the SBA's financial and disaster assistance programs and then look forward to the witnesses' testimony.

The SBA is undergoing a period of transition. The agency has been the source of numerous scandals. As a result of the agency's activities involving such things as Capital Management Services and that now defunct Small Business Investment Company's connection with Whitewater, as well as the production of slick, pro-administration health care reform brochures, many have come to question the SBA's activities. As a consequence, Members of Congress need to take a hard look at SBA's programs.

As you know, I am very concerned with the responsiveness of the SBA to small, rural disasters as compared to its activities with regard to large-scale urban disasters. For the most part, South Dakotans were pleased with the assistance they received following last summer's extensive flooding. However, the responsiveness of the SBA to the recent California earthquake was far superior to that of the Great Flood of 1993—let alone to isolated disasters occurring in sparsely populated areas. For example, after losing a third of their businesses in a fire, the people of Onida, SD, waited for 65 days before SBA disaster assistance was made available to them! On the other hand, it took SBA less than a day to spring into action after the recent earthquake in Northridge, California. I hope that in future disasters, rural America will be treated as well as urban America.

I do want to commend the administration for withdrawing its proposal to increase the interest rates on disaster loans. Rural America already has been decimated by floods. It does not need the burden of higher interest rates.

The second issue to be discussed today is SBA's 7(a) guaranteed loan program. The 7(a) program is probably one of SBA's most successful programs. The program was so successful, that last summer Congress had to provide a supplemental appropriation for the program. Congress then restructured the 7(a) program by reducing the federal government's guarantee rate on the loans. I am looking forward to hearing how the new 7(a) program is viewed within the administration, financial sector, and small business community. In short, I hope to learn how well the changes we enacted last year are working.

Again, I welcome the witnesses and look forward to their testimony.

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